

MINDING THE CORPORATE GOVERNING GAP:
The Institutional Construction of Corporate Governance
in Chile

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by

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ABSTRACT

Against a backdrop of substantial institutional change in Chile over the last 40 years, this research assesses the challenges faced by the main actors in the corporate governance arena.

Chile has embarked on a unique experiment, since it became the first country in the world to elect a Marxist president in 1970, which led to a deep national institutional crisis. The chaotic situation was ended with the military coup d'état in September 1973. The Military Regime soon began applying shock treatment, opening a closed and protected economy and, despite some deep crises along the way, achieved an impressive growth rate, which made Chile a success story. Pinochet's authoritarian government kept a tight political grip and repressed its opponents. However, after losing a key plebiscite it peacefully handed over power to a democratic government in 1990, so ending 17 years of rule. The following five democratic governments maintained the economic model and over 20 years led the country to sustained economic and social progress. This has positioned Chile as a role model for emerging markets around the world aspiring to reach development and its experience in public and institutional policy are widely studied. However, paradoxically since 2010 Chile has experienced an explosion of corporate scandals and ensuing social rights rebellions, which have been challenging the model, questioning the national institutions. Public trust has fallen to historically-low levels.

Unsurprisingly, these events have systematically confronted the corporate elite's governing practices. Qualified observers, such as MIT professor Ben Ross Schneider, report that these elites have played a key role in the progress of Chile, but, by the same token, are likely also an obstacle to achieving the goal of becoming a fully developed country (Guzmán, 2016). Therefore, a process of *Action Research* was adopted to gain access to the elite's inner worlds, questioning their perceptions, beliefs and understandings, and encouraging them to explore options and imagine new ways and solutions to throw light on the key levers that determine the Chilean governance system - with the added benefit – should they accept the conclusions and challenged posed by this research, that these actors are well placed to make change happen in their arenas of professional practice.

Consistent with this setting, this research looks to explore the evolution of *governing* in Chile, as viewed by members of the governance elite. It does so through Institutional Theory lens, using inductive qualitative methods derived from *Grounded Theory*.

The research finds that the concept of corporate *governing* has adapted to three successive institutional logics during the research period. Through a time-line, I show how each institutional logic has superseded the previous one, but without nullifying them – so adding increasing layers of complexity. This investigation allows us then to identify and delve into these sources of institutional change and associate them with path-dependent transformations at the societal level.

Finally, this research helps crystalize the new corporate *governing* imperatives and extract managerial and theoretical lessons, so contributing to both professional practice and academia. The main contribution can be synthesized as the proposition that corporate governance is not just a matter of business, but a social construct in development, which implies a continual process of minding the corporate *governing* gaps derived from a country's changing institutional logics.

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PREFACE

This is an academic account of a long journey of professional exploration, scholarly research and reflection and conceptual and practical learning. It all began at a board meeting in early 2014 when I noticed my own hesitation at raising a subject with my fellow board members. My concern was to assess just how exposed the company was on finding itself included in the growing list of corporate governance scandals besetting the Chilean business community. Might such a question be taken as a political critique of the system of private enterprise so cherished among Chilean businessmen? Would I be offending some of their friends and colleagues as directors on other interlocking boards? Would I be letting an evil genie out of the bottle? Would I be seen as a Cassandra, foretelling an evil future? What if any or many of these questions turned out to be true?

To my relief, my colleagues reacted positively and expressed similar concerns. They were also perplexed; disappointed to learn of the actions of friends; surprised to have discovered that other well-known directors and industrialists, with hitherto impeccable reputations, were also being accused of wrongdoing; and, overall, they expressed similar concerns over their own positions on the various boards they sat, and for the companies themselves. More than anything, they appeared lost and keen to find answers. However, their questions (and mine) were far from coherent. We all had doubts about; what to think; what was really going on; what to do about it, and; where to start.

Discussing the issue in abstract terms with one of my colleagues at my family business consulting firm, we soon realised that the matter was fascinating, relevant and quite a hot topic. A real-world governance problem that would merit further investigation and a unique opportunity for me to apply the rigour and practical approach of my pending doctoral thesis. My partner and I saw the value of investigating the answers to our consulting clients – leaders in medium-sized and large family firms - who were increasingly asking for help in making their boards of directors more professional. Most of what I knew of the literature reflected the “usual suspects” of good corporate governance: a separation of the CEO and the chairmanship role, the importance of independent directors, boards of an appropriate size and the role of committees (Huse, 2007; Finkelstein & Mooney, 2003; Gabrielsson & Huse, 2004), but this “programmed knowledge” hardly respond to the issues raised about board professionalization. However, at the outset, I did not have a specific question in mind beyond trying to understand what was going on in the governance arena.

Although I understood things very generally and intuitively as, a priori, I did not want to affect or limit the subjects, issues and the possibility of finding out not only the answers, but also to formulate interesting questions – given the inspiration derived from the previous three years’ reading, all of which should so lead to concluding my Action-Learning (AL)/Action-Research (AR) professional doctorate.

The first idea was to contact high profile directors and industrialists sitting on boards of prestigious local corporations, with long experience, forming part of top business circles with ready access to Chile’s Who’s Who. But, the doubt remained: where to start? Another colleague turned up and, hearing about our hesitations, immediately suggested: “I am well acquainted with high profile industrialist, former head of one the national business associations, ex-chairman of a leading pension fund. I believe he would be keen to participate, as he is outspoken, having made the headlines with critical questions of our business class”. That was enough to set the ball rolling. I met with him a couple of weeks later and, to my surprise, he was eager to share his views. Before the end of the interview he volunteered the names of other possible candidates, who in turn then confirmed and suggested further names. In no time I had compiled a short list of confirmed participants. And then I added two more individuals, based on my own perception of certain governance angles, not fully covered by the list to-date. So, I found myself conducting fifteen short interviews with very high-profile directors, politicians, lawyers, former regulators, financiers, and entrepreneurs, fourteen of whom, to my surprise, committed to meet me three times over the coming year, to “reflect on what was going on in the governance arena in Chile, given the emerging corporate governance scandals”. More importantly, these individuals were also prepared to reflect on the current governance issues within their own respective professional worlds. Finally, I ended up with a rich assortment of perspectives from a dozen highly qualified participants

Thus, my investigation began without a set of specific research questions, but more with a focus on problem areas. The group of committed, well-informed and active participants were willing to share their personal views on the status of the local governance arena. What, you might ask, was in it for these generous participants? I cannot be sure, but I’d say it probably had to do with their desire and, maybe even concern, to gain and understanding of what was really going on - to work out their own answers and, in some cases, to have a forum; to voice their discomfort with the current status quo; the actions of close colleagues and antagonists and; perhaps in one or two cases

even, to confess to their own past or current behaviours before a respected and neutral academic, like myself.

Interestingly, despite being extremely busy people, each of the 12 participants honoured their commitment - although the timetable extended well beyond the original 12 months and eventually took 19 months. This was as largely due to our demanding work schedules and travel commitments. What is revealing is that most of my participants had cause to publicly acknowledge corporate governance issues - some quite serious - within their particular spheres of activity during my period of research.

I met with each participant to talk candidly and in broad terms about “the corporate governance scandals in Chile, their background, the recent past, the present, and their expectations for the future”. I quickly made it clear that, given the practical approach of my thesis, I expected them “to share their thoughts on a governing challenge of their own and how they would plan to deal with it”.

This thesis is therefore an account of my extraordinary journey, in which I developed a unique understanding of prevalent governance theories, research methodologies and, through the exchanges with my participants, a glimpse into the inner-workings of the Chilean elite. However, the most rewarding aspect of this project came from the insights it gave me into Chile’s institutional logic, namely in deciphering how the country is ruled and gaining privileged knowledge on the practicalities of how organizations are really governed. As a reflective scholar–practitioner, this conferred great insight in my attempt to balance business acumen, social sensitivity, and the rigours of scientific research.

CHAPTER 1 - INTRODUCTION

As with many emerging countries, Chile experienced a series of profound institutional changes in the last half century. Indeed, its pioneering structural reforms have caught the attention of the world, particularly due to the sharp turns in its political and institutional setting and its social and economic results, which are generally perceived to have been very successful.

Chile first moved from deep political and economic crises into a military dictatorship in September 1973, which paradoxically combined harsh political control with one of most open economies in the world. Against a backdrop of systematic violations to human rights and restricted political activity, the military government introduced and encouraged a process of economic liberalization the dominance of free-market policies. Then, in March 1990, the military peacefully handed over power to a democratically elected government formed by a coalition of its opponents. After a delicate and successful transition, the country has gradually increased the level of democratization and globalisation accompanied by one of the most extended period of prosperity in history (see Appendix F for details on the Chilean context).

Despite been recognized for its low levels of corruption, which compare favourably with those found in *advanced* economies, since 2010 Chile has suffered from an increasing number of corporate governance scandals. The roots of such high-profile events are not clear; public trust in private enterprise and other institutions is at an historically low level and business leaders are struggling attempting to control the damage. In consequence, it is not “business as usual” and in my professional practice – as a consultant to family-owned business - I see a generalised sense of volatility, uncertainty, complexity and ambiguity among leading actors.

This makes Chile a natural *laboratory* to research the corporate governance strategies being considered by directors and owners of leading large organizations in a context of continuous institutional change. In consequence, my research questions (further developed in Chapter 4) are:

- What have been the challenges to the main actors in the corporate arena deriving from socio-political-economic institutional changes in the period 1973 to 2016?

and;

- How have they addressed these challenges and what have their corporate governance strategies been?

In answering these questions, I am looking to throw light on personal and organizational responses to institutional change and, through informed testimonials, flag the reactions to increasing institutional complexity. I am also looking to reveal the social influences in corporate governance and so postulate explanations to the evolutionary behaviour patterns followed by individuals and institutions and the effects such processes have had in an emerging market.

The contributions to practice are many and centre on providing explanations, interpretations and suggestions to practitioners searching for answers in the midst of action. Deriving insights for public policies is another source of outcomes. Recycling such ideas as part of my multiple roles as a board member and then adviser to boards and large business groups represents the direct application of the knowledge-creation process; benefitting not only myself but also the organizations I work with. This learning process might also serve in a practical and, hopefully, ethical manner my graduate and undergraduate students, who make up an important part of the elites ruling big business in Chile.

In formulating the research question, I resorted to “*pattern-inducing*” (Reay & Jones, 2016, p. 449) techniques, flowing from *interpretivist* conventions based on the implicit hypothesis that *sense is directly associated with context*. This implies that the best way to capture a meaningful socio-cultural experience fully is to observe it from the “inside” (Myers, 2013, p. 38).

Capturing meaning naturally requires willing participation of *senior* individuals, developing a level of mutual trust with each participant through the mutual investment of time to develop the necessary rapport and flexibility in the application of research methods. Therefore, I privileged a methodology that promoted a continual and fluid interaction with my participants. *Action Learning* (AL), taken as a broad ethos (Bourner & Simpson, 2005), was ideally suited. In addition, AL corresponds to my doctoral preparation and training as business consultant. My status as professor could also help generate the necessary trust.

The lens I selected through which to observe both institutional change and response was Chilean corporate governance scandals. It is well established that scandals provide an extraordinary (out of the ordinary) opportunity to question the assumed objectivity and apparent inexorability of “normality”, fostering a critical assessment and a probing attitude towards formal and informal rules (Fiss, 2007). In addition, in my direct experience, scandals tend to arouse strong emotions by uncovering the hidden horrors of daily reality, promoting a human need to process and share some

of these vivid feelings. Concordantly, Fiss (2007) proposes studying governance scandals, given the fact that they offer a chance to observe that when such fictions vanish, fractures are revealed; existing systems are objected to and transformed; how corporations and regulators act under such circumstances; and how events are interpreted by diverse institutional players and observers.

Thus, scandals naturally become, both the subject and the stratagem to unlock closed doors of the main actors, to stimulate an on-going dialogue and to retain the actors' attention throughout the research process.

With the research “site” now in place, the next step was choosing the right instruments to both process the data collected and to formally identify the patterns, given Action Learning's limitations in terms of theoretical creation (Rigg & Coghlan, 2016). The inductive work was developed using Grounded Theory techniques, which provided rigorous tools to develop the pattern-inducing process, while offering an appropriate theoretic background for AL and other methodologies within an interpretivist paradigm (Zuber-Skerritt, 2001). This implied a mixed-methods approach (Creswell, 2013) that did not imply assuming the whole “package” of either GT nor AL, but borrowing and applying carefully several of its components (see Chapter 4).

The main findings of the research are the following:

1. The three macro-changes in socio-political-economic institutions in the period, namely, the forceful, teleological, imposition of free markets; the natural derivation associated to a transitional democracy; and the organic effervescence derived from explosive community involvement, have implied successive, superimposed and diverse institutional logics. These three *logics* can be characterised as economic maximizing, political understanding, and social partaking, respectively.
2. These changing *logics* have brought major institutional challenges for actors and organizations, given their differing implications in terms of sources of legitimacy, authority, and identity, as well as the implied norms, perceptions, expectations, and values implicit in formal and informal structures;
3. Institutional understanding has become distinctly more challenging, given that the subsequent institutional *logics* have not replaced one another, but have added layers of challenge resulting

in increasing institutional complexity and volatility, given that on occasion some might shadow one or more of the others;

4. As a consequence, the bases of corporate attention have been continuously expanding: adding market, political coalition, and more recently stakeholder perspectives. Likewise, the bases of strategy have been changing from narrower market issues into broader political, and more recently, social challenges;
5. Therefore, the understanding, scope and practice of corporate governance in Chile have evolved. It began with relatively static and narrow systems, processes and structures to direct and control organizations for the sake of shareholders, as defined in official reports and textbooks (OECD, 2004; Tricker, 2012). At some point the concept incorporated the challenge of managing resource-dependencies vis-a-vis powerful state agencies and political coalitions à la Pfeffer (2003). And, according to this research, it might better be defined as *governing*, a gerund capturing its dynamic condition as well as its complexity, involving a set of mechanisms, socio-scientific knowledge-bases and related capacities to lead human groups with the aim to direct and control increasingly complex organizational, socio-economic and environmental processes, as originally proposed by Foucault (2000).

The research concludes with a series of theoretical propositions that capture the personal and organizational responses of actors and corporations, which contribute to both practice and research. Thus, this investigation is distinctive in the following aspects:

- Systemizing the evolution of corporate governance in the context of an emerging market – an under-researched topic;
- Linking different institutional governance *logics* to diverse theories-in-use, which are practised implicitly (or explicitly) by the main actors in processing their governance problems;
- Recognizing the interpretive task of these main actors in addressing the increasing complexity, and consequences of prospective institutional responses;
- Proposing governing as a set of tasks: including interpreting, learning and activating institutional complexity;
- Providing empirical evidence of the evolution of the corporate governance process;

- Incorporating the role of institutional entrepreneurs as interpreters, learners, promoters and proponents of new governance practices;
- Discerning the macro and micro links between institutions, *logics*, organizations and main actors;
- Exploring the non-linear interconnections between global events and local occurrences affecting a small emerging country; and
- Illustrating through empirical evidence just how diverse institutional *logics* interact, dominate and heighten the complexity of the governance function.

In summary, the main contribution this research makes is in demonstrating the social construction of corporate governance in Chile, placing governance as a subject that goes well beyond any particular business theme and linking it directly to societal processes. Such conception implies not only path-dependent and context-specific processes but carries the prospect that corporate governance will evolve in line with changes in the prevailing institutional *logic*.

CHAPTER 2 - LITERATURE REVIEW

The questions guiding this chapter relate to corporate governance in literature with a focus on the following questions:

- a) What are institutions? And how do they work?
- b) How do they come into existence, change and evolve?
- c) What interrelations occur between institutions and governance?
- d) How institutions influence actors and organizations?
- e) How actors and organizations respond to institutional changes?
- f) Which theories take account of such dynamics?

In this chapter I take stock of the main streams of literature, adopting a broad and critical perspective in an attempt to incorporate what is relevant in the conceptual framework of my research.

2.1 Theoretical Building Blocks.

I herein review what I consider to be the three theoretical building blocks within which this research is developed, namely, the concepts of governance, stakeholders, fields, and institutions. I also review different perspectives taken in extant literature to analyse the concept of governance. The Chilean context within a Latin American setting is also reviewed as part of the existing corporate governance literature.

2.1.1 Governance: Kinds and Principles.

Governance is a human function that has existed since the beginnings of time. However, despite its antiquity it is still difficult to define precisely or generally, as it tends to be captured by diverse disciplines (Bevir, 2011). Governance can be intuitively understood as making sense of what is going on, identifying a key theme, transforming such a theme into a vision, developing a strategy to achieve that vision, and using this insight to direct, control, empower and make people (including rulers) accountable on an on-going basis, while maintaining the capacity of self-questioning motivations, processes, roles and outcomes. Dean (2010) in fact makes self-governance a central aspect of his re-reading of Foucault (Foucault & Burchell, 2011).

However, understanding governance as a function in itself requires further elaboration. Rosenau (1992, cited by Davies, 2002) affirms: “to presume the presence of governance ... is to conceive of functions that have to be performed in any viable human system”. Davies (2002, p. 59) following Rosenau’s lists among governance functions: “setting goals, developing strategies and policies, procuring resources necessary for ‘preservation and well-being’, preventing conflict among its members or factions from tearing it apart, etc., and more generally, as a measure of effective functioning, coping with environmental uncertainty and external challenges”. Adding that: “those functional needs are ever-present if a system is to persist intact through time” (ibid.).

The governance functions proposed by Rosenau and Davies, while useful and valuable, seem to restrict governance to its *fiduciary* and *strategic* modes, associated with identifying problems and developing plans to deal with them, respectively (Chait et al., 2011). However, they seem to miss a *generative* perspective implying key processes such as making sense of a situation, framing a problem and focusing on learning and reflection (Chait et al., 2011); such aspect, while cornerstone, might easily be neglected in amid day-to-day business concerns.

Thus, given the many intangible facets of governance, it seems natural that some aspects might tend to become invisible in normal times and consequently, ignored or forgotten. That is why it should be no surprise that the ‘question of governance’ comes systematically to haunt us after every major crash, as concludes Banner (1997) after studying “300 years of evidence”.

And although the focus on guilt and recrimination tend to be put in the breach of fiduciary responsibilities – the most visible aspects of any crisis -, a more in-depth analysis should point towards faults in *generative* governance. Indeed, it is symptomatic that a common aspect of many scandals is the fact that nobody was able to question on time the *raison d’être* of their organizations, and how practices-in-use were opposite to espoused visions and values. And even more sinister, how the strategic governance in place might just have been particularly efficient ways to achieve evil purposes in many cases. Thus, it could be speculated that organizations might be responding to invisible mechanisms, such as to its culture and intrinsic values and/or to some external institutional influences, powers or logics.

The usual ex-post responses in dealing with such difficulties and questions at the corporate governance level, tend to emanate from three major flanks:

- Governance understood as best practice that can be exemplified by Carter and Lorsch (2013, p. 1)’s call to go “back to the drawing board”, that is, back to basics: recover forgotten (or learn unknown) practices of good governance;
- Governance interpreted as setting incorruptible values capable of overcoming individualism and unhealthy systemic interrelationships – the ultimate drivers of corporate governance scandals (Coglianese & Michael, 2006); and
- Governance seen as regulation: “to rectify perceived governance weaknesses in [...] legal systems”, especially after corporate collapses (Hill, 2012, p.367).

However, such standard responses have all been tried at some point and have fallen short in the face of the vast and amorphous dimensions of the challenge. Thus, a holistic governance perspective might prove more useful. In this context, Bevir (2011)’s propositions appear to incorporate the *generative* aspect mentioned above and to be useful to look at both the past and the future:

“I suggest that ‘governance’ refers to new theories of social coordination and new worlds of collective action, and, more controversially, I suggest that the new worlds arose in part because people acted on formal and folk versions of the new theories. This latter suggestion reflects my commitment to interpretive theory. *If we are fully to explain a form of governance, we have to refer to the meanings and stories that are embodied in it; we have to interpret the beliefs and theories that have led people to act so as to create and maintain it.* I hope ...[to] improve people’s understanding of the world in which we live, the ideas that have made that world, and alternative ideas by which we might remake the world” (p.1, emphasis added).

Unfortunately, governance is an overly common term in a wide variety of fields, such as economics, finance, management, geography, political science, sociology, public administration and development studies (Bevir, 2011) and what’s more: “[e]ach discipline sometimes acts as if it owns the word and has no need to engage with the others.” (Bevir, 2011, p. 1). Thus, governance is frequently studied from diverse perspectives and tends to focus – sometimes narrowly - on mechanisms and rules, such as: principles, policies and practices (Tricker, 2012), key concepts (Bevir, 2010), relationships (Coglianese & Michael, 2006), social coordination issues and the practices of rule (Bevir, 2011), regulation (Horn, 2012), structures, roles and influence (McNulty et al., 2011), managerial incentives (Bos, Pendleton & Toms, 2013), and inducements associated with economic institutions (North, 1990).

However, the *silo* mentality, whilst functional to knowledge development in terms of focus and efficient reductionism, misses important insights from neglected disciplines. And hence a different mode of knowledge is required in which *knowing* is not limited by artificial boundaries, allowing different streams of knowledge to be integrated around a common challenge.

Henry & Lee (2004) identify three generic and more holistic approaches to governance: organisational, systemic, and political governance, framed as follows:

- *Organisational Governance*: ethical standards of behaviour by managers associated with principles of corporate governance—conceptualised by Jiang (2013) as good governance, prescriptive of how organisations should be governed;
- *Systemic Governance*: concerned with the main competitive and/or cooperative interactions among key stakeholders – as analytical/heuristic perspective oriented to explain how governance occurs in practice (Jiang, 2013);
- *Political Governance*: addresses the exercise of influence – instead of direct command - by the state or its agencies to mobilize a system in a given direction as a “mixture of analytical/heuristic and of normative or prescriptive accounts of how states seek to obtain outcomes without direct control...” (Jiang, 2013, p.286).

Organizational Governance includes *Corporate Governance*, a concept capturing the leading role boards of directors are expected to play as ultimately responsible for an organisation’s direction and control and accountable to stakeholders. As such, it represents a prescriptive, principled, normative account of good board practice.

This research straddles corporate governance and the above mentioned systemic and political aspects, given its primary focus on the responses of the former to changes in the latter. Therefore, while corporate governance is my principal interest, I maintain an openness to systemic and political issues attempting to capture the evolutionary aspects of institutional change. This explains the interchangeable usage of both terms in this work.

The previous distinctions put in central place external actors and the governance function, thus we need to ask who are the stakeholders participating in the governance function and processes, and what is the purpose of governance? I now turn to these aspects.

2.1.2 Stakeholders, Institutions and Fields.

Stakeholder theory proposed by Freeman (1983) appeared as a conceptual response to the perceived amoral ethics of capitalism and business reasoning, counter-arguing the value of moral conceptions like relationships, teamwork, trust, reliability, fairness and care for survival and prosperity (Freeman, Harrison & Wick, 2010). Since its origins, Stakeholder Theory has evolved into full-fledged Stakeholder Capitalism (Freeman et al., 2010) in opposition to the traditional capitalistic models anchored around workers (Marx & Engels, 1967), government (Keynes, 1937), managers (Berle & Means, 1991), entrepreneurs (Schumpeter, 1951) and investors (Friedman, 1970; 2009). It is based on; freedom, protection of rights, and positive consensual obligations, which carry as principles: cooperation, engagement, responsibility, recognition of social complexity, continuity in relationships, and emerging competition; all of them designed to create value for stakeholders.

Stakeholders were originally defined by Stanford Research Institute investigators as the groups required by organizations to continue existing, and over time the definition mutated into all the people having a “stake” in the organization, being affected by it, depending on it and/or contributing to its success (Freeman et al., 2010). Hence, relevant stakeholders include a wide array of actors, social bodies and organizations, including: state authorities and agencies, markets, networks, and organisations, as well as shareholders, board members, managers, communities, suppliers, clients, competitors, regulators and the media, among others.

To try to make sense of such a variety of entities we look to the terms proposed by Douglass North (1990). Thus, we could differentiate between *organizations* and *fields*. The former have been conceptualised by North as political, social, economic or educational bodies bonding individuals around a common purpose. According to North (1996), organizations are produced by the matrix of institutions.

Fields, on the other hand, are situations in which groups of actors get together, align and organise themselves around common frameworks, allowing them to act in a consistent manner in their interrelations with others (Colglouh, 2005). Fields can be understood as rules governing actions, systematic patterns of interactions, and practices (ibid.).

Organizations have members and identifiable boundaries. Institutions do not (Ménard y Shirley, 2005). They are the outcome of conflicts, commitments, power struggles, and interactive games within fields of action, that are in permanent flux, given systematic questioning, challenge, and power games, which eventually help these institutions “survive, reproduce or [be] destroyed” (Colclough, 2005, p.14).

Actors can be characterised *à la* Jessop (1998) by their consciousness, reflexivity and strategic approach as well as purposeful in terms of their intentions and preferences, especially in terms of their interactions with state agencies making decisions binding members of a society on behalf of their common interest or a generalized will.

2.1.3 Governance Theoretical Streams.

Several theories have been advanced to try to explain and model the behaviours and mutual interactions of shareholders, board members, managers, as well as their interrelationships with stakeholders and financial entities. The dominant theories can be organised in nine main *pastures*, namely:

1. **Financial-Economic** theories, such as *Agent-Principal Theory*, and *Transaction Cost Economics* and *New Institutional Economics* (North, 1990; Ménard & Shirley, 2005) assumes self-interest of managers within the framework of firm contracts, and a search process for efficient governance mechanisms, respectively, to achieve value creation for external shareholders (Huse, 2007; Nordberg, 2010; Tricker, 2012);
2. **Legalistic-Fiduciary** theories, like *Stewardship Theory*, assume, on the one hand, a recognition of duty and responsibility by directors and managers, and on the other hand, the disciplining role derived from external forces (Tricker, 2012), in which the focus is more on value-protection (from expropriation or destruction) for the legal owners (shareholders) than value-creation;
3. **Strategic Management** theories, like *Resource-Dependence Theory* and *Resource-based View*, founded in identifying and exploiting strategic, scarce and relevant value-chain resources to achieve value-creation for the firm (Nordberg, 2010; Huse, 2007; Tricker, 2012)
4. **Pyscho-Sociological** theories, like *Managerial and Class Hegemony Theory* (Tricker, 2012) criticising the passiveness of non-independent boards, benefitting powerful CEOs (Lorsch & MacIver, 1989), and *Paternalistic Theory* (Huse, 2007) considering family politics and

emotions (Huse, 2007);

5. **Institutional** theories, such as the sociological *Institutional Theory*, incorporating the constructs of *Institutional Logics* and *Institutional Entrepreneurship* (DiMaggio, 1998), and closely linked theories like Social Capital, Social Networks, and *Interlocking Directorships* (Huse, 2007) based on understanding the impact of embeddedness, social norms, group cohesion and favoured relationships, and determining how such links allow capturing key resources (Pfeffer & Salancik, 2003);
6. **Interactive** theories such as *Game Theory* (Aoki & Jackson, 2008; Huse, 2007) featuring both cooperative strategies and negotiation and the *Strategic Relations Approach* (SRA) proposed by Jessop (1998), offering a framework incorporating strategy, structure and agency in which actors design, apply, and revise from the results of their strategies to learn how to fit with context selectivity;
7. **Pluralistic** theories like *Stakeholder Theory* (Freeman, 1983, Freeman et al., 2012) that take an external perspective that may encompass social, political and ethical views, by taking “an ecological perspective, viewing the company as part of an organic system” (Nordberg, 2010, p.41) in which the board takes into consideration all those who have stakes (interests) in the organization;
8. **Systems view** proposed by *Systems Theory* and *Cybernetics* (Tricker, 2012; Stokes, 2004; Turnbull, 1997) helping identify the boundaries of systems, considering different levels of abstraction, that is, macro, meso and micro systems, and specifying the system functions, in term of inputs and outputs; and

9. **Behavioural Theory of Corporate Governance:** positioning governance within a socially situated context enacted by elites, who interpret the environment, informed by their social understanding, thus constituting a socially influenced agency. This theory draws on insights from empirical research by Westphal and Zajac and several colleagues (Westphal & Zajac, 2013; 1994)

As made clear by Tricker (2012), corporate governance theoretical bases are fragmented, as there is no single shared integrative paradigm. We therefore must take bits and pieces of the existing theories to make better sense of how organizations and people are governed.

Given such diversity, I focus next in three particular theories from this long list, which are the most directly relevant to this investigation. These theories arguable are the most encompassing of both

macro and micro governance effects of direct interest to this research, namely, *New Institutional Economics*, *Resource-Dependence Theory* and *(New) Institutional Theory*.

2.2 New Institutional Economics (NIE)

Institutional economics studies the effects of economic, social, and political institutions on economic behaviours and the performance of markets. Institutions are defined as “the humanly devised constraints that shape human interaction” (North, 1990, p. 3). Institutions “structure incentives in human exchange, whether political, social, or economic” (ibid.) and therefore institutions are key drivers of economic performance and development. Institutions are thus, basically the rules of the game that economic agents play. Institutions are in permanent evolution and change due to the influence of external shocks and/or the action of institutional entrepreneurs; proactive, resourceful and self-interested actors (North & Thomas, 1970) as a consequence, countries achieve either virtuous or vicious cycles of development or stagnation (North, 1990)

NIE humanizes traditional economic theories, relying on under-socialized, highly rational actors pursuing their individual goals, directed by self-interest and personal risk inclinations, who are subject to information constraints and driven by incentives. The main governance mechanisms are formal incentives and monitoring arrangements channelling behaviours in the direction of organizational and/or social goal. Failures of governance systems, might lead to calls for greater regulatory attention, including contract-enforcement institutions and/or coercion-constraining institutions (Greif, 2008; Menard & Shirley, 2005).

NIE’s main contributions to this research are the following:

1. Institutions reflect the rules of the corporate governance game played by actors and organizations;
2. Rules might include both enforcing and coercion-constraining aspects, and virtuous or vicious cycles might derive therefrom; and
3. Institutions change and evolve due to the action of institutional entrepreneurs.

However, I continue to problematize the (still) under-socialized nature of actors, their narrowly defined self-interested incentives and the implicit fixed set of preferences given that the own institutional evolution might transform incentives, broaden preferences and mutate social attitudes, propelling a drive towards new, unintended and unanticipated equilibriums. A process that might

be better explained by informal mechanisms and socially embedded practices, beliefs and attitudes (Pacheco et al., 2010).

2.3 Resource Dependence Theory (RDT)

Originated as an explicit alternative to *Agency Theory*'s economic efficiency presuppositions, *Resource Dependence Theory* (RDT) proposed by Jeffrey Pfeffer and colleagues (Aldrich & Pfeffer, 1976; Pfeffer & Salancik, 1978) combines an organizational theory of how organizations deal with their social environments with a reflection about both intra-organizational and extra-organizational power and an insight about how organizations develop strategies to deal with their resource dependencies (Pfeffer & Salancik, 2003). RDT has been characterized with the phrase: "when it came to explaining strategy, power often trumped profits" (Davis & Cobb, 2010, p.5). Therefore, RDT might explain why certain organizations are able to harness more power than their counterparts as a result of different degrees of interdependence deriving from their positioning in socio-political networks, including the government and other social actors (Pfeffer, 2003).

The main application of RDT is seen in hiring decisions, the conformation of boards of directors and the formation of strategic alliances, as well as the relationships with political powers. Despite RDT's wide potential applicability and its common-sense appeal, empirical studies over the last 30 years have not been very supportive of its tenets, perhaps due in part to widely changing socio-economic circumstances (Davis & Cobb, 2010), and RDT has had a subsequent transition from source of falsifiable empirical projections to its widespread usage as metaphor of organizational dynamics (Pfeffer, 2003).

RDT's main contributions to this research are the following:

1. Environments affect organizations (and actors);
2. Organizations (and actors) attempt to actively manage the external constraints of their environments; and
3. External environmental constraints impact organizational dynamics (Pfeffer, 2003).

The implication of these ideas is that as Pfeffer (2003, p. 287) says: "corporate behaviour can be more readily explained by resource dependence ideas than by ideas of efficient markets or even investor capitalism."

However, I still problematize the relatively micro perspective of external environments under RDT, as it leaves some level of indeterminacy or ambiguity in its interpretation of the macro-sources of resource dependence – in particular vis-à-vis institutional environments. For instance, Pfeffer (2003) cites the studies by Fligstein (1997) and Thornton & Ocasio (1999) of the financial and publishing industries, respectively as evidence supporting the search to secure external resources as proposed by RDT, but he does not assume in his argumentation the crux of *Institutional Theory* at the heart of these studies: the evolution of the macro-institutional *logics* determining most other properties in these industries.

Pfeffer (2003), in stating that resource dependence varies over time and that, in consequence, environmental contexts should be systematically researched, taking a longitudinal perspective to make sense of them, is nevertheless illuminating for this research, in so far as it attempts to capture the institutional evolution and its influence in the governance paradigm, as explained in **Chapter 7**.

Finally, I also retain RDT's proposition of paying attention to non-market strategies, including active links developed by organizations with political, economic and social activities. This last aspect points towards the role played by power in business and society.

2.4 Institutional Theory

In so far as it sees institutions as socially constructed, informal rules or cultural norms, which generate practices, behaviours, and belief systems, *Institutional Theory* posits that cultural meanings encompass organizational structures, policies, and practices.

The heart of modern *Institutional Theory* is the prevailing institutional *logic* (Friedland & Alford, 1991), that is the “organizing principles that furnish guidelines to actors as to how to behave” (Rao, Monin, & Durand, 2003, p. 797), which offer the basis for the formation of the social identity of actors, including the systems of incentives, and so providing meaning to individual endeavours. Thus, existing theories of corporate governance, such as *Agent-Principal Theory*, could be seen as corresponding to “institutional *logics*” containing culturally meaningful social directions (Thornton & Ocasio, 2008; Thornton, Ocasio & Lounsbury, 2012; Westphal & Zajac, 2013).

Neo-institutional theorists have given a stronger emphasis to the role of individual agency and purposeful action in the generation and abandonment of institutions (DiMaggio, 1988; Fligstein,

1997; Oliver, 1991). *New Institutional Theory* (NIT) assumes that individuals are self-interested and act to transform their institutional environment by re-aligning it with their individual goals. Thus, the distinguishing factor of NIT is introducing the concept of the institutional entrepreneur as an actor, managing and mobilizing resources to change or create institutional structures (DiMaggio, 1988; Pacheco et al., 2010).

While *Institutional Theory* takes a broader macro-perspective on theories of corporate governance, proposing that firm-actor relationships are embedded in a larger socio-cultural context (Westphal & Zajac, 2013), *Behavioural Governance* researchers have contributed to this institutional perspective by suggesting how organization-level social and political processes moderate the institutional influences on governance structures and policies (ibid.).

According with Westphal & Zajac (2013) in general there is a lack of studies on institutional change in corporate governance. They compare Friedland & Alford (1991), who define such an evolution as a transformation at the societal-level, affecting the institutional logics of organizations, with a more stringent definition by Fiss (2007), who includes transformations in the “institutional status” or in the social legitimacy of specific policies, structures, or forms. And they add that most research does not satisfy Fiss’s more constraining definition, as most researchers focus in institutionalization or de-institutionalization processes of particular governance procedures and configurations. An exception is Fligstein (1993)’s study of changing conceptions of control in the corporate field – a conceptualisation going further than the traditional industrial setting. They also affirm that, even more scarce has been the study of the sources of institutional evolution (Westphal & Zajac, 2013).

I retain the following as relevant for this research from *Institutional Theory*:

1. The relevance of cultural and meaning systems to guide social actions, structures and policies, and the resulting impact in legitimacy of achieving a coherent alignment with such informal rules;
2. The role of institutional entrepreneurs as proactive actors, generating institutional change; and
3. The relevance of institutional *logic* as the cultural matrix defining appropriate organizing, behaving and governing collective practices.

I also consider the value of the concept of *field* as a unit of analysis in facilitating the study of

processes of institutional change, expanding the traditional perspective on industrial analysis, so including meaning systems as part of the examination.

However, I argue that *Institutional Theory* tends to assign an overly generic perspective to the role of institutional entrepreneurs, and that the discipline of entrepreneurship might further enrich our understanding of entrepreneurs' roles, strategies and their own logics, as argued by Pacheco et al. (2010). In addition, given the increasing role being played by social movements, their insights should be allied to the conceptualisation of institutional entrepreneurs (Lounsbury, 2007).

2.5 Chilean Corporate Governance Literature.

In Latin American countries, corporate governance is heavily influenced by the intervention of the State that, independent of how well-meant or populist-driven it might be, typically ends up creating additional distortions, due to the brisk pace of change in policies and cases of public-private collaboration; often with some degree of corruption. And this situation is complicated by the common and influential presence of large, family-owned, diversified business groups, with their own agendas (see Colpan et al., 2010, for the cases of Argentina, Brazil, Chile and Mexico).

In Chile the corporate governance debate is still in its early days of development. Studies have covered the relationship between governance practices and value (Leal & Carvahal Da Silva, 2005; Lefort & Walker, 2005; 2007), economic shocks and governance (Lefort & Walker, 2000), pension funds and corporate governance (Iglesias-Palau, 2000), and comparative governance between countries (Aguilera et al., 2008), but more holistic perspectives are missing to capture behavioural governance at the societal level, in particular the kind of research work done by Westphal & Zajac on Germany, the US and other countries (2013).

Lefort & Walker (2000) find that Chilean corporate governance regulation has been mainly shaped by reactive actions in response to crises or major incidents. However, a systematic analysis of corporate governance failures and exploring the origins of such events, options on how best to manage them in practice and areas of improvement are still lacking. Therefore, there are opportunities to exploit the learning opportunities offered by the natural experiment provided by recent crises, and, on the other hand, to take advantage of the insights derived from such events to sponsor a research project involving practitioners reflecting in action, with an action-learning bent.

Aguilera, Judge & Tejersen (2018) in a study covering the realities of emerging and transition markets highly relevant for this research, provide a bridge between *Institutional Logics* and *National Governance Logics*. They define Institutional *logics* as the “socially-constructed assumptions, values, beliefs, formal and informal rules, and practices that equip organizations with a toolkit to interpret their experiences, direct their attention towards specific choices, define future goals, and limit their potential organizational choices” (p. 5).

Aguilera et al. (2018) affirm that social institutions at the national level influence the process of categorisation and attention configuring at the organizational level. This has been demonstrated by early research about industrial policy changes during the Great Depression as outcomes of changes in cultural paradigms about industrial rationales (Dobbin (1993), and more recent investigations by Vasudeva, Alexander, & Jones (2015) and Bundy & Pfarrer (2015).

The authors postulate four *idealised* kinds of national governance logics concerning how corporate resources and authority are generated, preserved, and allocated within diverse national settings, assuming that society, state and market influence each other historically in path-dependent ways, producing singular, national-level institutionalized *logics*. Following O’Riain (2000), Aguilera and her colleagues define these as a *liberal model*, defined by the dominance of the market, a *social-rights model* in which social claims predominate over market policies, a *developmental model*, in which the state and society are in coordination with the market dynamics, and, finally, a *socialist model*, in which the state has the power to dominate both market and society.

The explicit assumption of Aguilera et al. (2018) is that all countries comprise a multiplicity of *logics*, but that a single *logic* ends up dominating the others. This dominant governance *logic* delineates firms’ behaviour in obtaining legitimacy determined by both their inner corporate governance practices (e.g. the responsibility of the board, management incentives, and internal control systems), and the external governance influences they are subject to (e.g. the market for corporate control, the influence of media, and external auditing) (Aguilera, Desender, Bednar, & Lee, 2015).

However, *dominating* does not necessarily mean an absence of the other *logics*. Thus, the contributions of Aguilera and colleagues begs the question just how the different institutional *logics* might be combined and constitute layers of influence at a certain moment in time? The taxonomy of interactions between different *logics* proposed by Thornton, Ocasio & Lounsbury

(2012), which attempt to categorize the different combinations, is valuable conceptually, but still requires further grounding, particularly in the context of fast-changing, emerging markets.

From the previous sections flows the need to work under as broad as possible an integrative theoretical umbrella, given the interdisciplinary aspects related to the concept of governance, as well as the transition process Chile has experienced, as most emerging countries.

CHAPTER 3 - PHILOSOPHICAL POSTURE & CHOICE OF RESEARCH APPROACH

In this chapter I introduce my philosophical posture, present the reasons for doing a qualitative study and explain my selection of mixed-methods as methodology, integrating aspects of both *Action Learning* and *Grounded Theory*.

3.1 Philosophical Posture.

Johnson & Duberley (2010) offer a clear matrix map of ontological and epistemological perspectives, in terms of their objectivist or subjectivist character, that, although somewhat generic, is useful to project the researcher's own philosophical posture. In the context of this research, an objectivist ontology would imply assuming that the social and economic world is concrete, factual and in existence, independent of human cognition (Easterby-Smith, Thorpe & Jackson, 2008) and not constructed by "human cognitive processes", as presupposed by a subjectivist ontology (Johnson & Duberley, 2000, p.180). Meanwhile, a subjectivist epistemology would imply presupposing that we cannot thoroughly access this collective societal world through completely neutral, unbiased approaches, as assumed by an objectivist epistemology.

In my case, I feel interpreted by a combination of an objective ontology and a subjective epistemology, which, according with Johnson & Duberley (2000), would be compatible with three different schools of thinking: *Pragmatism*, *Critical Realism* and *Critical Theory*. These three perspectives, share an emancipatory sense-making and problematisation of "taken-for-granted social constructions of reality" and their differences seem more a matter of degree than kind (p. 185).

However, each theory has its own particularities: *Pragmatism* prioritises the evaluation of theories in use through their practical achievements or breakdowns. Creswell (2013) recollecting diverse perspectives around *Pragmatism*, affirms that it goes beyond specific philosophies and focuses on whatever works, taking research as situated in social, historical, political and economic contexts. Corbin & Strauss (2008) then adds, "action and interaction are crucial to Pragmatists" (p. 5).

Critical Theory is a social theory concerned with critiquing and changing society - not only understanding or explaining it. *Critical Theory* emphasizes how an epistemic reflexivity enables constructing new understandings and attaining cooperation, compromise and consensus (Johnson & Duberley, 2000).

Both philosophies share the possibility of “thinking about thinking ... [a process] socially and historically conditioned” [ibid.]. In this way, these schools of thought allow practitioners and researchers alike to recreate alternative interpretations and justifications, propelling a drive to the transformation of socio-economic reality. And, as Johnson & Duberley (2000) state, an epistemic reflexivity is, in of itself, a valuable resource for researchers and participants to access their own creative contributions and clarify their main ethical concerns.

Anchored in the writings of Bashkar (Johnson & Duberley, 2000), *Critical Realism* is a scientific social methodology which aims at identifying the mechanisms generating social occurrences, while recognising that these events are in a state of flux, conversely to those of the material world, that are much more invariable in their status. In terms of the social world, *Critical Realism* proposes that individual agency occurs within social structures, which are recursively reproduced through actors’ actions. However, those actors can also reflect on their own actions, and so adjust their actions to reproduce social structures. *Critical Realism* has been re-interpreted by researchers such as Jessop (2005), who argue that social effects derive from exchanges between “strategically selective contexts” and determined “strategic reflexive actors”, searching to realize their strategic objectives, so giving way to a dialectical relationship between actors and context.

In consequence, my implicit assumptions can be summarised as follows:

- *Ontology*: The existence of reality does not depend of our consciousness.
- *Epistemology*: Objectivist / Subjectivist, as realities can be, either scientifically perceptible or not directly observable.
- *Methodology*: Multiple methods can help us make sense empirically and might offer genuine explanations and some capacity of prediction.
- *Research*: Science aspires to explain and predict, which can be achieved by identifying the connections between facts and grasping the fundamental configurations and implicit connecting mechanisms.
- *Application*: To identify the paradigm underlying the interrelationships between institutional contexts (including political, economic, social, and cultural settings) and actors’ behaviours.

- *Substantive area-problems*: Who are the main actors in the governance arena? Who are the key stakeholders? What processes are they involved in? What is going on? What is the situated context? What is the implicit paradigm guiding actors' actions and their interactions? How can such paradigms be expressed? Why is a given paradigm dominant? What can be done about it? How is the institutional context evolving? What determines change processes?

Comparing this philosophical positioning with the methodologies introduced below, there is a high degree of compatibility. The *Action Learning* method is coherent and even encourages a pragmatic outlook (Pedler, 2011; Bourner & Simpson, 2005; Bradbury, 2015), and *Grounded Theory*, in its classic version, is trans-epistemological (Loy, 2010), i.e. “epistemologically and ontologically neutral” (Holton, 2007, p.268), so it might readily accommodate different philosophical postures.

3.2 Choice of Qualitative Research

The main reason for using a qualitative research methodology was the intention to take advantage of the privileged and confidential access conferred by my profession as a family business strategic consultant – an aspect rarely available to researchers investigating corporate governance actions, which occur *behind closed doors* (Carter & Lorsch, 2013) - to explore the world of the main actors in the Chilean corporate governance arena. The purpose of doing so was to gain insights into the world from their perspective, and by the same token, to attempt to make a contribution in developing an empirical knowledge-base on the trajectory of corporate governance and its evolution in the context of an emerging economy.

The foundations of my analytical aim were designed to capture emerging concepts embodying the main experiences and interpretations of high-level participants. Naturally, this could not be achieved through quantitative research.

Given the well-recognised difficulties of translating ““home” culture for audiences of others” (Karra & Phillips, 2008, p. 545) - particularly when such a challenge relates to the reality of corporate governance in emerging markets, this researcher's home-base (Hayano, 1979) - the experiences shared by participants were analysed in a larger institutional context in which they are derived. Thus, again, a qualitative approach permitted conveying the particularities and a richness of what risked being viewed as peripheral realities to readers situated in the central hubs of global knowledge.

In addition, this thesis aimed at exploring a particular process of institutional change in corporate governance in Chile, deriving from a series of successive and persistent events and systematic problems, taking the form of corporate scandals. Although the focus of the research was not scandals *per se*, these events were nevertheless the triggers to enable an opening-up of conversations with some of the main actors who have been central to the processes governing in Chile over the period under review. In consequence, the insights arising from these conversations, interactions and the actions of the participants could and should definitively be apprehended through qualitative methods to extract their richness in depth.

3.3 Action Learning Ethos of the Thesis

The University of Liverpool DBA Thesis Handbook provides the openness and flexibility associated to *Action Learning* (AL) and *Action Research* (AR) philosophy, which can be interpreted as an AL *ethos*, leaving the researcher the option and responsibility of choosing a specific methodology fitting the issue at hand.

Although there is a major debate about what AL is, Rand (2013, p. 231) proposes six “irreducible elements of AL”:

1. Action as the core of the learning process;
2. Focusing on actual, situated problems;
3. Using questioning, oriented to accomplish goals and to promote reflection to foster learning;
4. Emerging learning process;
5. Collaborative questioning and learning; and
6. A developing aim.

However, according with Zuber-Skerritt (2001, p. 4) AL researchers might be criticised for not creating “scientific research and theory”, as they mainly intend generating action and improving their own practices. Therefore, I required a complementary methodology to fulfil the requirements of rigor and knowledge-creation of the DBA programme.

A related question was AL or AR? These schools run in parallel from very similar origins, associated with authors Reg Revans and Kurt Lewin (Zuber-Skerritt, 2001), respectively. However, researchers in other arenas will often tend to ignore the literature in the other (Rigg &

Coghlan, 2016). However, some researchers like Coghlan and Raelin straddle both, as does the Australian AL, AR Association. And in fact, those active in both fields tend to agree that the distinction between both schools is similar to the distinction between learning and research: the emphasis in problem solving of the first and in disseminating knowledge of the latter (Zuber-Skerritt, 2001). Rigg & Coghlan (2016) go on to conclude that the term ‘AL research’ proposed by Coghlan and Coughlan (2010) reflects the triple commitment “to learning, to action and to the generation of ‘actionable knowledge’ (Argyris 2003). Thus, I respond to such convergence by using indistinctly AL or AR in the rest of this study.

Fortunately, the AL/AR ethos offers the openness and plasticity of accommodating AL with other research methods. Thus, while respecting AL’s distinctive character, I next turn to the choice of *Grounded Theory* as the complementary theory generating methodology as recommended by Rand (2013).

3.4 Choosing a Qualitative Research Methodology

The alternative qualitative methods primarily explored were case studies, narrative approaches, ethnography, participatory action research, and grounded theory.

I quickly discarded *phenomenology*, given that I did not have a particular “object” (van Manen, 1990 quoted by Creswell, 2013, p.58) of human experience – not all the participants had experienced in first person a governance scandal, at least at the beginning of the thesis, and just focusing on those who had gone through such an experience would represent a serious access problem. In addition, I was not particularly interested in “what” participants had experienced and “how” they had experienced scandals (Creswell, *ibid.*), an approach that would turn this research into a more philosophical or psychological study, but in the impact of a series of scandals on their actual governing practices, closer to what is required in the spirit of AL.

Ethnography was the object of my first interest, given my focus on a particular group of people – primary actors in the governance arena. However, ethnography focus in cultural patterns (behaviour, language, and interactions among group members) appeared, again, as too passive for an AL investigation. And its main method of participant observation was definitively outside the scope of this study, given the elite group I had identified as the main informers of Chilean governance scandals.

I perceived that a *narrative study* would be more akin to desk research and would hardly fit AL, given that it would focus more on written texts, and on personal stories, both approaches being far from the practical purpose of this work. I also thought that, in case of being able to persuade participants to carry and share diaries, these narratives could be valuable components of this research. Unfortunately, I could not see any real possibility of making that happen, given the sort of participant and their relationship with me (now) as a researcher, as explained in a subsequent section.

The *case studies methodology* was an idea retained for some time, as Yin (2011)'s approach offered the possibility to critically analyse scandals. I soon realised that it would not make sense as an AL project. It would only offer a retroactive and relatively passive perspective.

The option of developing a purist *Participant AR* was promising and would naturally perfectly fit the DBA requirement, and I kept it open for a long time. However, realising the difficulties of arranging meetings and the long time spent chasing up participants - despite their demonstrated interest in having this series of conversations -, and maintaining an open dialogue, it was obvious that getting them together would not be viable given the time constraints of this investigation. Thus, the community sense associated to PAR would be lost and the process would probably be destined to fail from the beginning, contradicting my pragmatic approach.

However, influenced by the AL purpose, I set up the research project as a series of interviews spread over a year, with the idea of establishing a relationship with each participant in the first two rounds, and, at the end of the second one, inviting the participants to share and reflect on their own governance challenges. In fact, with most of them I found salient issues that concerned them directly and deserved their attention. However, as I realised during the process, they would not be willing to share their insights around their own issues with the depth and richness required for a rigorous stand-alone *Action Learning* project.

Therefore, and more or less naturally, I began to converge around the idea of enriching the qualitative data analysis with a *Grounded Theory* (GT) methodology. The main reasons that drove me into integrating AL and GT were three:

1. First, the professional orientation as a scholar-practitioner attempting to conceptualise the daunting complexity of reality in the form of a “theory”, that is, a comprehensible conceptualisation of an ongoing process (Creswell, 2013);
2. Second, the emerging nature of such research, endeavouring to flowing from practice and interactions matching my background and skills as consultant, aiming to capture systematically “what is going on” in the field; and
3. Third, the promise of GT to allow me to develop a theory that works, fits and is relevant in practice (Glaser, 1978) was a call that I could not resist, given my professional ambition of making a contribution to the actors engaged in action.

3.5 Choosing Grounded Theory

GT was born as a way of bringing closer theory and empirical research, while appreciating the important advances in methods for verifying theory, GT centred in enhancing the capabilities of researchers to generate or discover theory solidly grounded in the data (Glaser & Strauss, 1967). Thus, GT is an “operationalizing methodology” (Glaser, 1978, p. 2) explaining how the researcher should go out into the field to gather the data, the way of identifying categories through comparative analysis and integrating them, producing memos, sampling and composing theory; a process of research and theory construction “guided and integrated by the *emerging* theory” (ibid., emphasis in the original).

The purpose of GT is the “systematic generating of theory from data, that itself is systematically obtained from social research” (Glaser, 1978) useful to provide “relevant predictions, explanations, interpretations and applications” (Glaser & Strauss, 1967, p. 73).

Theory should be understood as “an abstract analytical schema of a process” (Creswell, 2013 p. 63). Therefore, the condition is finding participants who have experienced such process, while the theoretical development should facilitate an explanation of the process that is being lived through and provide a framework for feed-back and – taking an AL perspective - eventually feed-forward the endeavours of the participants in the process, as well as to contribute to an expanding scholarly knowledge-base around the substantive area-problem (Creswell, 2013 Glaser, 1978; Easterby-Smith, Thorpe & Jackson, 2008).

The *Grounded Theory* generated should be evaluated for its *abstractness*, i.e. for its analytic power and generalizability, and for its *sensitiveness* to practitioners, in terms of being close enough to their own practices to allow them to relate such theory to their own perceptions, experiences and involvements (Easterby-Smith, Thorpe & Jackson, 2008). However, it should be clarified that the resulting theory would be a substantive theory – relevant for the specific field studied, instead of a formal one, which would require constant comparison with a broader sample of diverse fields. This thesis therefore aims to build a substantive theory, following the recommendations of Glaser (2007) that puts formal theory well beyond the possibilities of an inexperienced researcher doing doctoral work.

For all the above reasons and its intrinsic characteristics, *Grounded Theory* appeared as a valid, attractive and complementary qualitative methodology for this research.

3.6 Compatibility between *Grounded Theory* & *Action Learning* Research

However, how to relate GT to AL/AR? Bob Dick, a leading scholar-practitioner, has written a series of articles about the links and synergies between GT and AR. He posits that both share important similarities and differences. Among the former, both develop theories grounded in practice; provide flexible approaches and require responsibility (Dick, 2007). The later include distinct and complementary capabilities: GT builds theory from evidence. AR uses comprehension to inform action. Indeed, one of the weaknesses of AL is that it is often unable or unclear on how to analyse data and how to build a theory (Dick, 2007). In the case of combining both methodologies, Dick recommends using Glaser version of GT, given its more explicit emergence and supplementary flexibility. Dick goes even further along the line of integrating both theories by reporting that many doctoral candidates and authors include GT in AR research “to remedy the perceived shortcomings of action research” (p. 403). The former is supposed to add rigour, while the later would support action, and according to Dick, who cites many recent examples, the mix is more powerful and critique-proof. He also clarifies that the usual process is having AR as the foundational methodology and adding GT to strengthen rigour and make the research process more systematic. In other cases, AR and GT have been used in a sequential manner (Teram, Schachter, & Stalker, 2005).

Walters (2014) synergizing GT principles and AR, proposes an innovative model of practitioner research developed from a case study based on the development of a UK high-school attempting

to implant a formative assessment system. Walters' research adopts an AR methodology, in which he acts as both a participant and a researcher, using GT to enrich the AR model. He also reports that several researchers have been combining GT and AR adopting it as a methodological approach. These include Dick (2007) mentioned above, Simmons & Gregory (2003), Poonamallee (2009), and Butterfield (2009). Indeed, Simmons & Gregory (2003) have developed 'grounded action', in which GT provides the methodology to define a theory, while *Grounded Action* (GA) is the way to operationalize a transformative action. Poonamalle (2009) develops a GT analysis of sacred Hinduist texts integrated with a PAR on an Indian community. Butterfield (2009) uses a social constructivist approach integrating both GT and AR to stimulate the successful practice and enjoyment of reading at the school level.

Therefore, given my need to pragmatically enrich AL/AR with GT methods, while not committing to their full packages, I found an emerging and promissory support in the literature. Thus, in this research I started with an AR broad purpose, developing a GT research to enrich the theory generation and including a subsequent AR loop as evaluation process of the GT developed.

3.7 Choosing a *Grounded Theory* School

How to choose between the diverse GT schools? Easterby-Smith, Thorpe & Jackson (2009) dictum is that a researcher should not only be aware of the different varieties of GT, but also be prepared to justify a personal position vis-à-vis such alternatives, when presenting the research.

The differences between the three GT versions all arise from the original departure from Glaser and Strauss, which might have been catalysed by the influence of the arrival of Corbin as a student and then collaborator of Strauss (Easterby-Smith, Thorpe & Jackson, 2008). And although it has been attributed to ontological and epistemological distinctions (Easterby-Smith, Thorpe & Jackson, 2008) the supra-epistemological and ontological perspectives of Glaser, argued by his close collaborator - Holton (2007) - would indicate that the main differences are non-existent.

Creswell (2013) attributes the breakup to differences in attributed meanings and techniques of GT. However, both schools of thought tend to follow a striking parallel in many aspects despite the diverse nomenclatures used, the conditional matrix or paradigm model of Corbin & Strauss (2008) can be perfectly accommodated as a particular case within the 17 sociological families proposed by Glaser (1978).

In addition, Charmaz (2006) has initiated a new constructivist school of GT, positioning her approach as a reaction to the ‘objectivist’ approaches of both Glaser and Strauss - marking another similarity between both schools of GT - (Easterby-Smith et al., 2008) and emphasizing more the voices of individuals than the methods (Creswell, 2013). However, Charmaz (2006) is less systematic about the process and has even challenged one of the essential elements of GT, the purpose of studying a basic social process or core variable (Creswell, 2013; Bryant & Charmaz, 2007). Therefore, given my inexperience and the need to decode a method that seemed appropriate and attractive, but quite difficult to apprehend, I decided to look for a more structured and guided approach. So, I was left between the Corbin & Strauss and Glaserian schools.

At this stage, I decided to look at doctoral theses related to corporate governance (CG) using GT, and found a series of GT dissertations about CG, and even more interesting for my own purposes, such studies were situated in emerging countries and recommended a GT approach to undertake these kinds of studies in non-developed country contexts (Boadu, 2013; Sorour, 2011; Ibrahim, 2013). The entire collection of thesis found in this preliminary search used the Corbin & Strauss variety of GT. So, I decided first to study this version.

However, the analysis of such works and attempting to apply the procedures established by Corbin & Strauss (2008) to my own data – already in process of accumulation through the initial round of interviews and being incipiently open coded (more about this process in Chapter 4 - Methodology & Conceptual Development) were both quite disappointing: I felt that using Corbin & Strauss (2008; 2010)’s was like ‘painting-by-numbers’, as it tended to pre-determinate categories and to producing tautological results, preventing the emergence of fresh insights – the attribute I valued most with the possibilities offered by GT. Later, I found out that these unsatisfactory results were parallel to the reservations of Bryant & Charmaz (2007), with the mechanical application of Corbin & Strauss’ axial coding and conditional matrix that tended to rely excessively on “preconceived prescriptions” (p. 9). And I would make my own Bryant & Charmaz (2007)’s motto that techniques “should earn their way into their respective methodological repertoires for their specific research problems” (ibid.).

In consequence, I embarked to study Glaser’s ‘Classic Grounded Theory’ school through his books and attending a “Troubleshooting Seminar” run by Barney Glaser, with the collaboration of Judith Holton and Andrew Lowe in San Francisco in November 2015. The guidelines received, including

personal coaching and feedback from leading faculty members and participants, and the posterior study of Glaser books (1965, 1978; 1998, 1999, 2007) persuaded me that I had found the required level of flexibility and rigour.

Hence, I proceeded with a ‘*Classic*’ *Grounded Theory* (CGT) turn in my thesis, while recognizing that given both the work developed up-to-that-date and the required AR/AL ethos of the thesis, I would not be able to commit to the full “package” of CGT, as done by many well-published researchers (including Charmaz, op. cit.). Therefore, I adjusted the subsequent procedures to fit, in the measure of the possible at this stage, the demanding tenets of GT, without compromising the AR spirit of the research.

CHAPTER 4 - METHODOLOGY & CONCEPTUAL DEVELOPMENT

This chapter closely follows **Chapter 3** as I engage with the methodology selected previously to present the process of conceptual development undertaken to produce an emerging *Grounded Theory*, fully developed in **Chapter 7**. This chapter comprises three parts. The first part provides an overview of the *Action Research* process, including access, interactions with participants, the ‘action turn’ and ex-post evaluation. The second part presents the *Grounded Theory* analysis: constant comparison and its outcome, the development of conceptual memos, the emergence of concepts, and the integration of concepts around a basic social process. In the third part of the chapter, I account for the conceptual development of an emerging theory, making explicit how it emerged and was developed.

The research work started as a qualitative approach, with the attention placed on emerging elements from the field study, which would allow me to identify the specificities of the fieldwork interactions to choose a specific method. Thus, it can be said, the investigation was approached with an open spirit, attentive to emerging elements from the field study that would ultimately lead to the choice of a more specific method. Thus, volume, quality and data-type guided me to the chosen methodology.

The research methodology also deepened my comprehension of the promises and limitations of alternative qualitative techniques permitting to gain an increasing appreciation of the alternative ways of approaching the phenomena emerging from the fieldwork.

Therefore, the methodology evolved during the research process, selectively combining induction and deduction at different stages and becoming more focused, rigorous and deliberate, while retaining an inductive inclination.

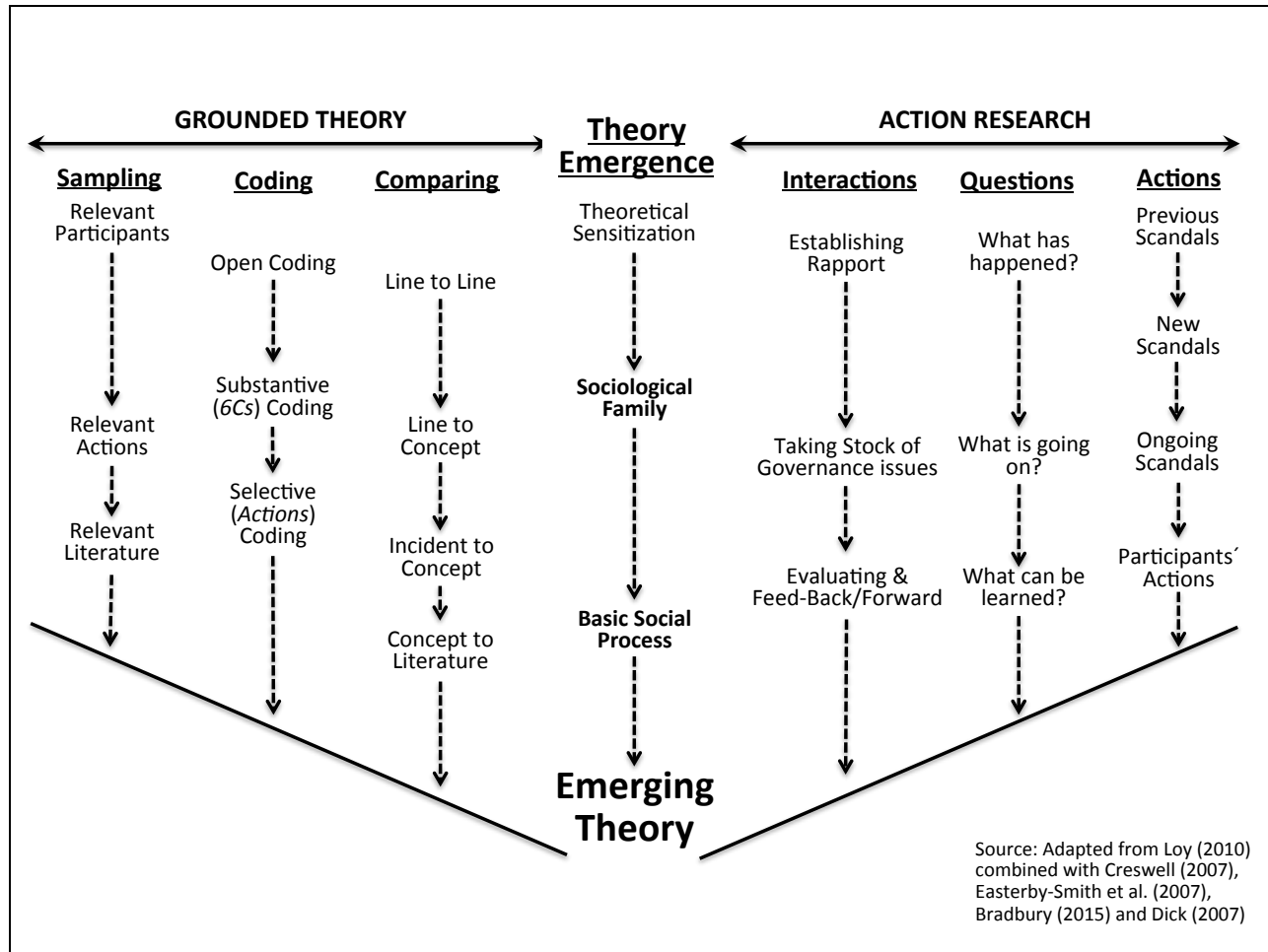
4.1 Selective Combination of GT & AR Methods

Figure 1 presents the sequence of activities developed; distinguishing the GT and AR aspects to convey a sense of how both methods interacted and informed the theory development process. The figure illustrates the temporal arrangement and the incessant influence of the ongoing institutional context during the research process.

As the figure shows the process started with an initial sensitization stage reviewing broadly the main streams of literature (presented in

Chapter 2 - Literature Review)– an activity developed before integrating GT consistent with Lo (2016). The production of reflective and conceptual memos accompanied the whole process. For the sake of simplicity, the horizontal links and recursive actions between the activities, are not shown. The figure reflects the temporal sequencing between all developments, driving to the emerging grounded theory.

Figure 1 - Grounded Theory & Action Research Interactive Process



The landmarks of the process are illustrated in **Figure 1** that emphasizes the theoretical development, and its three key processes:

1. The selection of a matching **sociological family** that allowed conceptualising the macro social processes, thus contributing to integrating conceptually the data and making sense of the main actions developed by the participants

2. The recognition of the sociological family chosen as properties of the **basic social process** identified as the **core category** and anchor of this research project;
3. The formulation of the **emerging substantive theory** and its set of corresponding theoretical propositions.

Following CGT, the research process does not include verification, given that the theory should be taken as a proposition to be evaluated by the communities of practitioners and scholars. CGT establishes that the evaluation of a grounded theory should be done in terms of four criteria: it fits, it works, it is relevant, and it is open to be modified according with the apparition of new data, including new literature, given that “all is data” (Glaser, 1978). In this thesis given the parallel GT and AR processes, the evaluation was organised to coincide with the last cycle of the AR procedure, evaluating the process and the learning. Next, I explain both research processes and their integration.

4.2 Action Research Process

Coughlan & Coughlan (2008, p.247), propose an AR cycle that includes: (a) context and purpose, (b) diagnosing, (c) planning action, (d) taking action, (e) evaluating action and returning to (b), as a cyclical process in which a theory should emerge.

- a) *Context*: The Chilean setting and its evolution over time is introduced in Chapter 5.
- b) *Purpose*: The broad purpose of this research since the beginning of the investigation was to explore the trajectory of the development of the understanding and practices of corporate governance in Chile, to make sense of what is going on in boards of directors and to reflect critically about it.
- c) *Planning Action*: The question guiding the process was how to advance from freely expressed opinions about crises into valuable disclosure of inner governance realities, key concerns as directors, and relevant insights as active actors conforming boards. A questioning process guided by Action Learning/Action Research methodology was the approach to make participants reflect about their own realities, focus their attention on their own key challenges and commit with an actual purpose relevant to their own professional practices, and then attempt to make change happen, and overall to attempt to learn from the experience. That is why the original questions were posed under the spirit of AL’s “Qs” conceived as mobilisers

of reflection, action and learning (Pedler, 2011; Revans, 1981, 1983, 2011), and consequently they were deliberately broad and generic, and went around the generic question: “*How do main actors in the corporate governance arena are addressing the corporate scandals in their professional practices?*”.

- d) *Taking Action:* Corporate governance understanding and practices are volatile, intangible subjects, difficult to approach directly. Perceptions and social dynamics play an important role, but so do human attempts to save face and hide in front of adversity. In addition, the duty of confidentiality as well as internal solidarity might prevent full access to inside information of board realities for research purposes (Hill 2012; McNulty & Pettigrew 1999), making relevant data virtually inaccessible, with few notorious exceptions (for example, Pick, 2007; Leblanc and Gillies 2005). Consequently, the approach selected was to focus research interactions with informers around the subject of corporate governance scandals, an “out there” topic, currently hotly debated in the Chilean business community, thus spontaneously enticing people to provide opinions and express critical reflections, facilitating in this way the access to key informers, and avoiding intimidating and, conversely, trying initially to stimulate them to openly share their views.
- e) *Evaluating Action:* The “engaging” approach selected was to progressively attempt to turn *informers* into actual reflexive and action oriented *participants* by shifting their perspectives from “there and then” to “here and now”, that is, to drive and help them focus on their actual experiences and challenges governing in practice, in a context of rapid change and increased expectations about the roles and responsibilities of board members (Letza, Smallman, Sun & Kirkbride, 2011). This was done with the deliberate -although tactically hidden- purpose of transforming standard interviews into a virtual “learning set” (Pedler, 2011), in which participants would not only respond to unstructured and general answers from the researcher, but would have the chance to reflect, learn the ones from the others using the researcher as a communicating vessel and eventually commit internally to some sort of action, including the chance of influencing others in their own communities of practice around governing activities.

4.2.1 Selecting Key Participants

A group of well-informed “insiders” aware of realities within major corporate boards was required to help developing an understanding of realities “behind closed doors” and to capture the nuances of changing behaviours.

The selection process started identifying through the business press some of the main actors systematically active in the governance landscape, to then taking contact with them, asking for a meeting to introduce the research and attempt to enlist them as informers and finally, requesting them to suggest names of potential participants, or just noting their suggestions about other high-profile actors that might have interesting experiences to share. Such snowfall sampling process (commonly used in family business research, see for instance Bjornberg and Nicholson, 2012) was “both deliberate and emergent” (Dacin et al., 2010, p.1399). It also considered the network effects associated to the elite context of participants.

Taking into consideration the most repeated names and using the researcher’s insights and connections as consultant and academic, 16 persons were approached, I met 15 personally, 14 accepted to participate, and 12 were finally selected according with their willingness to participate, commitment with the one-year process, and their uniqueness as kind of participant. The number made sense in terms of the requirements of time, and was the maximum I consider I could manage within the timeframe of the thesis. It also matched the relatively small number of participants in AR projects (and was also compatible with GT usual sample sizes). Below I share more details on the manner I approached them, how I secured access and why I think they were willing to cooperate, and the degree of credibility that could be attributed to their responses.

According with the University of Liverpool’s Ethics Committee’s regulations, the identity of the selected participants is kept confidential and they were given code names.

The participants collectively implied a sound theoretical sampling in terms of presenting a broad diversity of perspectives, experiences, background and ages. Thus they provide a fair and knowable representation of Chile’s governance “system”, given that the main actors were included: leading members of business groups, financial investors, foreign investors, government officers, board leaders of both state-owned and private enterprises, regulators, risk-rating agencies, pension funds, business associations, the social sector, politicians, the media and new

entrepreneurs, as well as independent board members and professionals working closely with boards and shareholders.

At the same time, the participants are diverse in other aspects: in terms of their political orientation, professions, gender, origin, social outlook; namely, a foreigner, a woman, two left-wing politicians–businessmen, one right-wing professional, two former government senior officers, an entrepreneur, a social leader, two lawyers, a sociologist, three economists, two managers, two engineers, two financiers, two members of Chile’s leading business groups, three independent professionals, two linked to foreign investors, three leaders of business associations. The approach followed was in line with series of studies by Terry McNulty, Andrew Pettigrew and colleagues researching with qualitative techniques the realities of managerial elites and board members (McNulty, Zattoni & Douglas, 2013; McNulty & Pettigrew, 1999; McNulty & Pettigrew, 1996; McNulty & Pettigrew, 1996; McNulty et al., 2011; McNulty & Steward, 2015; Pick, 2007).

The participants had another –potential- key role to play. As they are not just passive followers of governance norms, structures and practices, but leaders, movers and shakers in many aspects and multiple fields of activity, and consequently they could be expected –within certain structural limits- to eventually attempt to move the envelope of possibilities, practices and behaviours within their own worlds of practice. And thus, they could support the explicit aim of this investigation to move away from an externally focused, positivist study of an unchangeable reality, to allow an Action Research around a potentially live change process (Bradbury, 2015; Poonamallee, 2009; Simmons, 2006; Dick, 2007; Butterfield, 2009).

4.2.2 Interviewing Process

An interview protocol had been developed, formed mainly by open questions (see **Appendix 2 – Questions**). The interview protocol was reviewed after the first three interviews, corrected and used for the remaining nine ones. In general questions took a chronological perspective, starting by reviewing the past scandals, checking the present perspective on good and bad governance and attempting to anticipate changes on governance, including board duties and responsibilities and tasks, regulation and social expectations. Questions centred on the major cases, their causes, impact and derived learning.

The 12 participants were interviewed in three rounds: the first one to examine past scandals and former governance practices changes they had personally experimented. The second, to discuss future scenarios and to identify an area in which the participant would like to see some change happen. The subjects tackled varied from changes in board practices, board design, board orientation, to somehow broader attempts of creating a culture of risk management, facilitating mutual understanding between diverse public stakeholders, among others.

Prior to the third round, the participants were given a set of questions both as a reminder of the commitment and an observation tool to help focus their attention on the governing processes they were going through. These centred on the question: “what’s going on in your board”.

The third interview was originally oriented to collect experiences, learning, processes and as well as successes and failures whilst attempting to make change happen to overcome their own governance challenges.

As explained above and presented in **Figure 1**, the interviewing process included the following steps:

- a) *Preliminary Contact - Negotiating access*: The participants were contacted by email followed by a phone call request to meet me. I had short introductory meetings with each participant in their offices, averaging approximately 30 minutes where I told them about the study. I also informed them of the conditions of confidentiality established by the Ethics Committee and they signed an agreement. The agreement also indicated that they were to hold three subsequent meetings in a period of about one year. At the outset, the requests coming from a moderately well-known professor from a recognized school probably helped secure the initial access, as well as providing the required level of confidence for them to agree to a series of conversations. They were all aware that our conversations would be recorded, and that the information managed privately and securely. That said, they did not seem overly concerned about confidentiality – I attribute this to their intuitive trust in Anglo-Saxon confidentiality standards; to their familiarity in talking to the press and to academics; and, most importantly, to their concern to share upsetting events, on equal terms.
- b) *First Round - Establishing rapport*: The first round of meetings allowed me to generate an initial level of interpersonal trust. No one ever mentioned the issue of confidentiality, but two

of them asked me to turn off my recorder; once in the first round, when they shared private conversations with third parties or matters with legal implications. At this stage, I began to discern that they really wanted to speak their minds about such candent issues and in a safe environment. Some participants also openly stated that they expected/hoped to influence others through this study. Most of them appeared to relaxed and happy in talking to an interested listener. The subjects covered in these interviews were mainly focussed on discussing the main governance scandals, their impacts and the learning they left behind. **Table 1** presents the dates and duration of the first round of meetings.

Table 1 - First Round - Interview Statistics

Code-Name	Date	Duration
BUI	18 November 2014	01:11:18
LAW	18 November 2014	00:53:01
ENT	21 November 2014	01:08:05
FIN	03 December 2014	01:24:03
PHI	04 December 2014	00:48:02
MAN	22 December 2014	00:38: 54
GUI	22 December 2014	00:46:23
SOP	07 January 2015	00:46:19
REG	12 January 2015	01:26:00
BPO	14 January 2015	01:06:18
REF	27 January 2015	00:37: 27
PEN	14 April 2015	00:33:58

- c) *Second Round - Taking stock of governing issues:* This round of interviews had two distinct parts. The first related to the foreseeable (likely) evolution of the corporate governance system and their position vis-à-vis such possibility. The second part built upon the level of interpersonal trust created with the researcher and was focussed on questioning the interviewee about his/her own governance issues and the way she was dealing or attempting to deal with such challenges. Two of them could not identify, or (more likely) were unwilling to share any personal CG challenges (REF and BPO). After this round of interviews this researcher felt elated about the chance of having these primary actors in governance report on their endeavours. However, as the days passed by, I realised that it was probably an unfounded illusion and that the likelihood of receiving direct, clear and complete reports would be minimal - as turned out to be the case.

Table 2 - Second Round - Interview Statistics

Code-Name	Date	Duration
BUI	09 April 2015	00:59:02
LAW	09 April 2015	01:10:10
ENT	17 April 2015	00:51:02
FIN	09 April 2015	00:36:22
PHI	22 October 2015	01:29:50
MAN	25 June 2015	00:38:53
GUI	07 July 2015	00:55:37
SOP	24 April 2015	00:45:02
REG	06 April 2015	01:27:00
BPO	14 May 2015	01:03:04
REF	08 April 2015	01:18: 01
PEN	14 April 2015	00:34:26

- d) *Third Round - Evaluating and feedback & feed-forward exercises*: The third round allowed me to confirm that – as expected - the participants had not really taken to heart the idea of acting on their challenges. They didn't have the time, or simply were unwilling to share the steps they had taken, beyond their more generic expressions of interest. There were, however, three exceptions (PHI, PEN and ENT), all of whom were going through major change processes or crises and were more than willing to discuss their reactions, fears and/or the opportunities they saw for change. Beyond looking to check up on progress on participants' challenges, this round was designed to present a preliminary outline of the emerging theory, based on the 6Cs – see **Figure 3**. It was an opportunity to both provide feedback to the participants and receive their comments. Responses and reactions are presented in **Chapter 7 - Emerging Theory & Discussion**.

In general, all participants stated their appreciation of the conversations as a reflection on the opportunities and expressed their agreement with the emerging conceptualization. One in particular (SOP) expressed his expectation that this work might help push the business community towards self-reflection and 'creative introspection'.

Table 3 - Third Round - Interview Statistics

Code-Name	Date	Duration
BUI	15 December 2015	00:49:55
LAW	03 December 2015	00:39:06
ENT	14 January 2015	00:49:16
FIN	13 January 2016	01:08:30
PHI	04 May 2016	00:48:02
MAN	13 May 2015	00:36: 42
GUI	05 April 2016	00:49:09
SOP	29 March 2016	00:51:20
REG	21 May 2016	00:34:30
BPO	02 December 2015	01:12:02
REF	14 December 2015	00:37: 27
PEN	06 May 2016	01:00:01

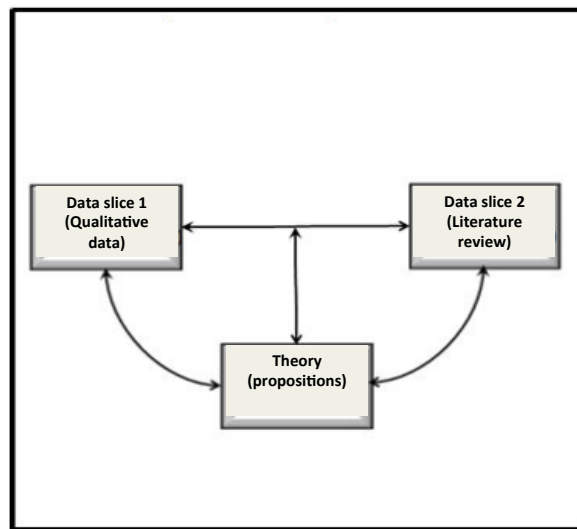
4.3 Reconciling Action Research with Grounded Theory Methods

4.3.1 A Preliminary or a Posteriori Literature Review?

As explained above, my research process had started with a brief review of the history scandals in Chile and the extant literature with a view to preparing my research proposal, designing the research strategy, and deciding best on the sorts of relevant questions that should be posed to the participants, including potential relevant action to be taken by the participants. I followed Lo (2016), whose writing within the classic GT paradigm, differentiated three stages regarding the literature: An initial, preliminary *sensitizing* process, vis-à-vis the literature, taking an open perspective to the data. Second, a continual stage of literature revision, which aimed at *saturating* the theoretical categories; this time taking a more focused approach to develop an integrative analytical strategy. And, finally, an overlapping and more reflective and abstract *recursive* stage, with an aim to contextualize my research, synthesizing the literature identified in the earlier stages with the triangulated empirical data, the emerging theory and the extant literature.

In general, I used the tenets of GT in the handling the literature, as suggested by Lo (2016) and Walsh (2014), so combining literature and empirical data.

Figure 2 - Combining Literature and Empirical Data



Adapted from Walsh (2014, p.54)

4.3.2 Interviews or Conversations?

As explained above, the first two rounds comprised general interviews, featuring open questions, as suggested by AR. However, the broad outlook of such interactions soon turned into broader conversations, featuring the free flow of speech by the participants - all of whom are senior, experienced professionals – very used and willing to speak their minds. These open conversations were most likely helped by the personal philosophy of this researcher and training as consultant, where clients are encouraged to voice their thoughts, expectations and feelings in a highly emotional and charged context.

4.3.3 Proper-lining or Basic-lining?

I reviewed the interviews once more, carefully looking for distinctions across the thoughts, feelings and actions expressed by each participant. I also made a point of using the last (3rd stage) interview to probe deeper with each participant to check the consistency of their expressed views – to avoid receiving a “proper-line” instead of their “basic-line” (Glaser, 2015) of opinion. I then cross-checked (without giving an information away about other participants) the behaviours, as seen by other players involved in the ‘small corporate world’ of Chilean corporate governance (Kogut, 2012). I also reviewed press cuttings and public speeches in which they figured (SOP, PHI, BPO and LAW).

4.3.4 Research Question or Problem?

Although GT does not officially use research questions, it incorporates many implicit questions or aspects to observe, such as: “what is going on?” “What is the participant’s main concern?” “What are participants doing to solve their issues? What process is used to deal with the problems?”

Therefore, in this way I was able to adapt my questions and make them compatible with both GT and AR. My original research questions then evolved into the following ones:

- What is going on in the corporate governance arena?
- What are the main actors in the governance arena doing about CG? and
- What new can be learned about CG?

I think that such questions represented not only a compromise solution between both methodological streams, but was also faithful to their respective spirits, while also being consistent

with the *pragmatic* approach I adopted as a guide for my interactions with the participants during the three stages of fieldwork and throughout my research.

4.4 Qualitative Data Analysis

4.4.1 Qualitative Data Analysis Process.

Transcripts of the conversations with the participants were produced, read (and listened to), several times. The process of reading/listening allowed me to take detailed, hand-written notes and draft informal memos to myself to assist in identifying and exploring ideas about coding categories and the relationships between the salient concepts.

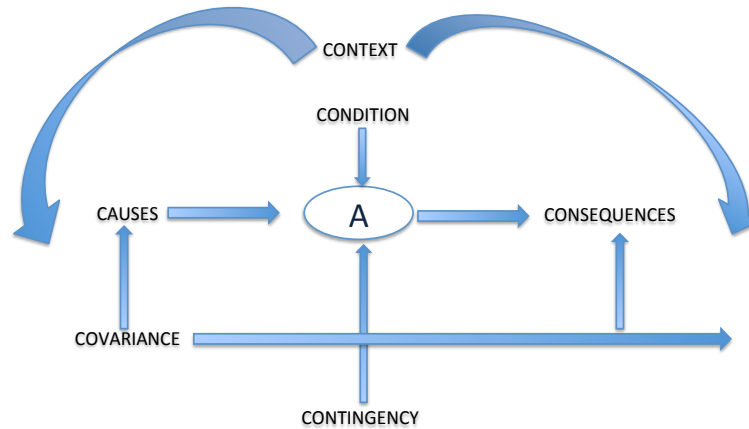
Moreover, I developed a manual open coding process after the first few interviews to check transcriptions in detail - line-by-line - initially by hand and identify potentially relevant concepts. After developing several categories, where relevant, the data from subsequent interviews was then compiled and assigned to these categories. Contrasts between interviews were soon established and, therefore, some new categories were created, others were then combined, and some were – after a while - dismissed. As the data began accumulating, I began codifying using NVivo software. With this, there followed an on-going process of computer-aided revision of the classification of all data into the established categories. This was done to facilitate the creation of cases from each of the three interview stages.

This initial process wavered between pure inductive extraction of categories and the more deductive search of subjects. However, the proliferation of data made it extremely difficult to re-integrate broken (incomplete) pieces of information. As a result, there were around 100 categories (see in Appendix 3). However, unfortunately, not much sense could be gleaned from such large variety without an organizing framework.

The second process of the data analysis occurred, when I began comparing my data with that of the 26 sociological families proposed by Glaser (1978; 1998), to make sense of the information collected. Finally, the sociological family of 6Cs was used, given I saw a clear fit as a way to organise the information (see Figure 3).

Figure 3 - Sociological Family

Glaser's (1978, p.74) 6 Cs Family



I then started analysing the 6Cs to check for a fit and, after some trials (see **Appendix 4 - Attempts to Fit the 6Cs Sociological Family**), and the production of a series of reflective memos (See **Appendix 5 - Sample Conceptual Memos**) I observed that I could at last make sense of what was going on by capturing most of the variation in the data and, at the same time, integrating the long list of categories created in the previous stage of the research project, and so get to organise them into *Higher Level Themes* (Dacin et al., 2010). After that, **Table 5**, **Table 6**, **Table 7**, **Table 8**, **Table 9** and **Table 10**, presented in **Chapter 5** were developed. As will be seen, the concepts in these tables were derived from an analysis of the categories, properties and indicators and then related to illustrative data.

Next, the literature was used to enriching the categories to what Dacin et al. (2010) call *Aggregate Theoretical Dimensions*, that is *Grounded Abstracts* concepts assisted by contributions from the literature (see **Chapter 6 - Theoretical Sampling**). This allowed me to theoretically *saturate* the themes and extend the potential applicability of these dimensions to a wider range of situations.

The combination of illustrative data, minutes and memos, specified the substance under the categories, which became the properties of the emerging basic social process, and its sub-processes. Thus, the outcome was the emergence of a “developmental” theory, reflecting a social change process (Glaser & Strauss, 2009 pp: 109-113).

The analysis of the key sub-processes led to the conceptual “explanation of how processes actually process problems” (Glaser, 1978) of this research.

4.4.2 The ‘Grounded Action’ Turn.

The actions being developed by the participants – analysed beyond their own statements - were identified by analysing, conceptualising and typifying *patterns* of behaviour. The next step was to share the general conceptualisation to which I had arrived with participants and get their direct feedback. This allowed me to enrich, challenge and refine each concept. Finally, three postures were consolidated in terms of their concepts, categories, and properties, as well as being illustrated with representative data. Thus, I developed a conceptualisation of the ongoing *action* and the participants themselves were included in an evaluation loop completed as the final AR/AL cycle.

4.5 The Emergence of a Substantive Grounded Theory

In this section I introduce the development of *Minding the Corporate Governing Gap*, its emergence and its development. The research project had three clear landmarks.

1. The first one was the election of a sociological family to model the data. And, as presented in **Chapter 5** this helped me identify the 6Cs involved in the social process: the *Context, Causes, Condition, Covariance, Contingencies* and *Consequences*. This conceptual clarity facilitated the process of organizing and integrating the data, as broken down into the open coding process. This made the whole processes of densifying and saturating these 6 concepts that much easier, in terms of identifying and completing indicators, properties, dimensions, and categories.
2. The second was provided by the literature revision that, as Langley (1999) poses, contributed to enrich the *theoretical aggregates* of the concepts identified previously. It also served to subsequently place the emerging theory among extant literature (see **Chapter 6 - Theoretical Sampling**).
3. The third was the identification of the basic social process: *Minding the Corporate Governing Gap*, as it brought out the dynamic perspective of the interplay between the *institutional context*, the *concern of main actors* involved in governance, and the *role of institutional entrepreneurs*, flagging up how participants process the problems faced.

From these 3 sub-processes, and underlying institutional logics were identified reflecting different stages of development (**Chapter 7 - Emerging Theory & Discussion**).

4.6 Evaluation Phase

The resulting theory was shared and presented to a variety of audiences to which the researched has privileged access - friendly board members, members of the Chilean business elite, foreign directors and senior executives – with a view to gaining their qualified feedback. This was used in the evaluation phase. **Table 4** illustrates some of the feedback received.

Table 4 - Feedback from Board Members

Codename	COMMENTS	QUESTIONS/EXPECTATIONS/ SUGGESTIONS
BER	“it looks very good to me, sophisticated, and at the same time, clear. Quite spectacular to say the truth... I like the clarity and consistency with which the reader can contrast it with his own observations”	“...perhaps as an open question or critique. Like most new models and concepts, it ends with a X state , as if it was the end of the history. We know it is not like that, so what will come next? [my own] candidates: ecology, crisis of democracy, demographic [changes], evolution...”
ROL	“I see what you describe in your model as a complex evolutionary system, ... as mechanical, biological or social forces that once they reach certain threshold they carry you with them and they tend to precipitate another following stage...like what you can see in the evolution of plants, animals or men...”	“Analysing this I conclude that we were wrong entering into that environmental business, as we did not expect the level of social and political turmoil we experienced. If we had known this we would have stayed out of this business”
FIF	“each stage adds complexity, and make this an ever expanding and increasingly complex system...”	“What is the connection with what is going on abroad?...we are not alone...what are doing the Scandinavians, Canadians?”
GEK	“....it is as we were speaking of the lack or loss of certainty instead of uncertainty”	---
DIE	“I see that we are going through cycles with time windows each time more shorter”	“ ... some actors capitalise a short span of popularity to benefit from their power over masses, so perhaps popularity is a variable in your model for those institutional entrepreneurs you are studying...anyway what they all are searching at the end are economic rents...so even if it is a social world, still you need to have a 3% of your budget to pay fees to different leaders of social movements to have some level of peace”

Although informal, the spontaneous feedback received is indicative of the actors during action the theory has some degree of workability, fits their experience and is still open to be changed in case of obtaining additional or improved information, as required in *Grounded Theory*. This point is further analysed in **Chapter 8 - Conclusions**.

CHAPTER 5 - DATA ANALYSIS

This chapter summarizes the *conceptualization* of data and the emergence of a practical theory grounded in that data. This elaboration was conceptualised progressively, beginning with the *inductive open coding*, followed by *theoretical coding*, *deductive theoretical* and *selective sampling*, complemented with *literature revision*, and the production of 97 memos – see **Appendix 5 - Sample Conceptual Memos**. In the process, several conceptual families (Glaser, 1978) were applied to evaluate their best fit with the data, finally selecting one, and using it to make further sense of the data. The next – and most challenging - step involved identifying the *implicit central basic social process*. Once found, this *core variable* allowed me to conceptualise its *associated basic social sub-processes*.

This theory-building process follows Glaser & Strauss (1967), namely in identifying an area/problem, accessing participants involved in the area, engaging in open conversations with these participants, all with the aim of finding out just “what is going on”, in terms of what are their concerns are and how they are seeking to resolve the problem.

The *open coding process* was carried out using the questions suggested by Charmaz (2006, p. 53):

- What process is at issue here? How can I define it?
- How does this process develop?
- How do the participants act while involved in this process?
- What do the participants profess to think and feel while involved in this process?
- What might his/her observed behaviour indicate?
- When, why and how does the process change?
- What are the consequences of the process?”

As with Charmaz (2006)’ experience in her study, developing a series of interviews of the same participants, the repeated contact with participants allowed me to observe how their expressed emotions, actions and interactions evolved over time. This allowed me to draw comparisons between similar and dissimilar incidents and so identify patterns and conceptualise significant processes (Charmaz, 2006).

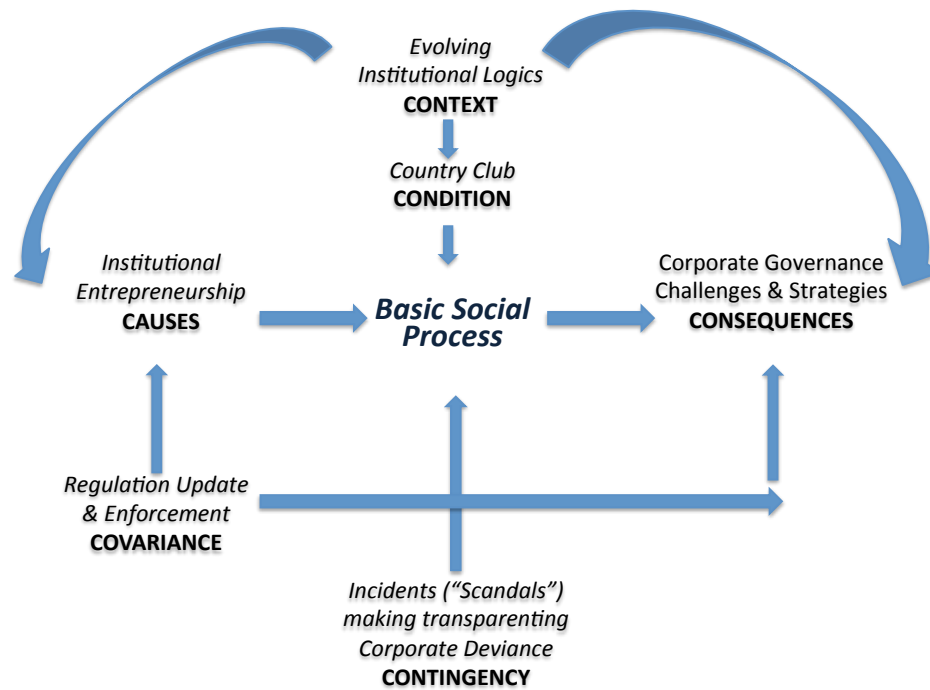
In summary, the process helped me identify a *basic social process* (Glaser, 1978; Charmaz, 2006), defined by Glaser as “the process processing the problem”. This is what the participants in my research experienced.

5.1 A Sociological Family to Make Sense of the Data.

The first round of *open coding* encompassed the results from 24 interviews and produced literally hundreds of different concepts that were more descriptive than conceptual. Thus, they were very difficult to organise in a coherent manner. So, taking a lead directly from Glaser (2015) I used the 6Cs Family as a framework to make sense of the open categories.

At the same time, I heeded the warning provided by Professor Andy Lowe (2015) “*Grounded Theory* is not suited to deal with other people’s abstract concerns, but to study their problems directly” and informed the conceptualisation process. **Figure 4** summarizes my application of the 6Cs Family.

Figure 4 - 6Cs Sociological Family Application



Adapted from Glaser's (1978, p.74) 6 Cs Family

The main purpose of this family of codes is to reunite disintegrated data during the open coding process, while tying open coding categories together and so obtaining more accurate, comprehensive and systemic explanations about phenomena under study (Strauss and Corbin,

1998). As Strauss & Corbin (1990) have warned, *Open* and *Theoretical Coding* (axial) occurs sequentially and simultaneously, while a recursive process is developed.

5.1.1 Context: Market Institutional Logic.

Strauss & Corbin (1998, p. 101) define *context* as the particular set of structural, social and economic circumstances that happen in a specific time and place within which the occurrences or problems to which individuals respond through actions are generated and so might help understand them. Thus, I needed to ask from the data what are the set of structural settings within which the corporate governance scandals occurred?

To make sense of the context I complement the interviews with an analysis of the historical socioeconomic setting established in Chile during a period of forty-three years (1973-2016), presented in Appendix 6 - Chilean Context, which I conceptualise in Chapter 6 with extant literature. I use this historical background as complementary data.

Table 5 presents representative data from interviews illustrating the previous analysis, its properties and the main associated categories.

Table 5 - Evolving Institutional Logics

CONCEPT	CATEGORIES	PROPERTIES	ILLUSTRATIVE DATA
Multiple Institutional Logics	Chicago/Friedman economic logic as a central axis of Chilean institutional framework. Political/state logic co-existing. Emerging Social logic.	Chicago <i>logic</i> as a dominant ideology. Chicago profiles in management and governance. Chicago economists transformed in dominant actors. Discredit of Chicago influence. Changes in <i>logics</i> . A political/state <i>logic</i> is present A humanistic, social <i>logic</i> is arising.	“...the firm did not adapt to the change in the country, got dizzy with its success. Why change if it's successful? ... This change made obsolete one way of being in business. Firms are still very influenced by ... the Chicago ideology. That logic vindicated them and made them feel enthusiastic. The free-market orientation of the [democratic governments] was a pleasant surprise... The justification of the profit maximization was that it improved society. With collusions, the Polar [fraud] and others [problems] the justification of business fell apart. The amoral logic. I never had a course in ethics in Catholic University. Ethics is a personal problem ...the way of being a businessman has changed in Chile. We cannot continue with the logics of 20-or-more years [ago]...” (BPO-1) “... I pay my taxes and I offer employment ... [while] I pay my suppliers after 90 days rather than 30 days. This is the negation of the capacity of providing value to the people, it is not enough ... this [Milton] Friedman model did great harm to us” (GUI-1) “... I care about the relationship with the local community, where we are going to put a plant. Are we OK with unions? There are

			<p><i>boards that focus on the financial aspects, this is the skill of managers; ... in Chile managers are very Chicago. We have to encourage them to be more humanist... managers who do not read newspapers, books, who do not look at the world, who are gauche with authorities...” [LAW-2]</i></p> <p><i>“...the board is too homogeneous. Everyone is a Chicago [alum]...” [PHI-3]</i></p> <p><i>“... the Chicago of yesterday are still today’s incumbents. They have forgotten everything.” [ENT-1]</i></p> <p><i>“...clearly the Chilean model is one of the most [liberal], radical in the world. The essence of the current government and its followers is to dogmatically dismantle every single trace of the structure created by the Chicago Boys...” [PEN-1]</i></p> <p><i>“...There is an [over] simplification of the thinking of Milton Friedman in this... Chicago thinking, which were relatively trivial by being instrumental in the privatizations, ... because ... our entrepreneurial development is very associated with the State” [SOP-1]</i></p>
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Therefore, the predominant institutional logic defining the context that remained unchallenged for forty years can be associated to economic *logic* – finding inspiration in Milton Friedman and the Chicago free-market model implemented in Chile and maintained relatively inalterable throughout most of the period.

Summarizing the conceptualization, it can be argued that the social facts that were transformed into institutions were an authoritarian government accompanied of a liberal economic system. Thus, individuals were conditioned to act not so much as citizens but more like economic actors. This encouraged their individual actions to focus on profit and self-maximization, reinforcing the institutional *logic* and making economic individualism and personal satisfying a core basic social processes of the period, consequently generating a mechanistic and very prosperous system that fed/promoted the notion of materialistic reality.

Different international studies such as that of United Nations Development Program (UNDP, 2015) observe that despite the unbalanced weight of the dominant *logic* and its widely recognized economic success (Krugman, 2014), towards the end of the period this achievement appears increasingly confronted by an emerging institutional *logic* of individual autonomy and rebellion

against *factual powers*. This is anchored in a widespread social empowerment (MIT professor Ben Ross Schneider interviewed by Guzmán, 2016). As an outcome of this contest of *logics* in the Chilean press, different surveys (*Bicentenario Survey, 2015*) and social networks regularly show strong criticism of the dominant groups, including the government and the political parties, and the result was a generalized loss of trust by the public-at-large in most private and public organizations (Encuesta Nacional Bicentenario UC - Adimark, 2015; UNDP, 2015).

The data provide support to a maximizing logic as predominant in the period, such national macro logic has been maintained during 40 years despite major societal and economic changes. However, almost all participants in this research commented spontaneously the increasingly adversarial atmosphere towards the institutional logic gaining momentum during the last part of the period under study. So, to understand more in depth these tensions, in the next section I discuss the behaviours of the dominant groups during the period that represent the *conditional* aspect of the 6Cs Family – see **Figure 3**.

5.1.2 Condition: Uncertainty-Reducing Practices & Impression Management

Having analysed the context, and noticing the predominant economic *logic* flows, the next question: what conditions mitigated or accelerated the institutional context's influence driving towards corporate governance scandals?

In a nutshell, participants tend to share the attribution of scandals to *old structures* (FIN-1), *interests* (FIN-1), *mindsets* (MAN-1), *habits* (REF-1), *protocols* (REG-1), *actors* (PHI-1), *dynasties* (ENT-1), *norms of behaviour* (LAW-1) prevailing and preventing boards from taking a more *self-critical* (PHI-1), *creative* (SOP-2), or taking an *introspective perspective* (SOP-2).

The conditions can be briefly described as a relatively small business class formed by powerful incumbents controlling most large business in highly concentrated industries; barriers of entry into banking services, instituted by conservative laws; a broker-controlled stock market, an authoritarian cultural heritage of the 17-year-long authoritarian regime still fresh in the memory of businesspeople, due to its economic success; and unbalanced educational advantages of mid-high social classes in a setting of still deep economic inequalities (MAN-1; REG-1; ENT-1).

A fortuitous encounter with a well-known industrialist in August 2014 produced the *in vivo* quote: “Chile is not a country, it is a country club” referred as how a senior member of the Obama

Administration perceived and characterised the Chilean context. Later, the press quoted the industrialist and the concept (Guendelman, 2015).

Such contextual situation was quickly visualised in the interviews as participants refer systematically to groups of individuals *having a sense of entitlement* (ENT-1), *feeling special* (PEN-1), being *self-referent for generations* (REF-2), *seeing themselves as more virtuous than the average due to their religious practices* (SOP-2), most of them *belonging to the same social group* (BIP-1), *acting as social tokens of virtue and distinction* (PHI-1), while *having crossed economic interests* (FIN-1). These actors correspond to what one participant calls the “*industrialist tribe*” (LAW-1). This excludes new entrepreneurs, who are seen as young and powerless underdogs, and are *identified as a different crowd by part of the population* (GUI-1). In addition, several of the participants identified themselves as part of the traditional *Country Club* (MAN-1; GUI-1; PHI-1; ENT-1). Almost all other participants were identified as forming part of the elite, by the rest of the group (of participants).

After testing it with several participants I decided to keep the *Country Club* in vivo code to conceptualise the institutional *condition*, given that, according with some participants, it can encompass slightly diverse categories, mentioned at different stages of interviews by the participants, such as:

- *Business* (including traditional Business or Industrial Associations, Banking System, Capital Market, the Santiago Stock Exchange, Family Business Groups, etc.);
- *Politics* (the Political System, the so called “Red Set” formed by high-profile socialist leaders, technocrats or high-level professionals involved in the government, who have developed close links with the business class);
- The “*Economic Right*” or traditional capitalists, formed by the landowning traditional aristocracy and modern industrialists;
- The *Army* or the armed forces, etc.;
- High-profile *social networks* (Socio-Economic Elites, a person’s informal networks, groups of upper-class, close friends, etc.);
- *Communications* people (Media Owners, key TV figures, etc.);

- *Religious groups* (Catholic Church, Opus Dei, Legionnaires of Christ, etc.);

These categories helped identify the properties associated with each category (such as power, resources, information, etc.) and the corresponding indicators (members, arenas, stakeholders, public profile, etc.).

The *Country Club* concept cannot be conceptualised as unique or concentric, as it clearly has different intersections among these categories (Bryant & Charmaz, 2007). These include; structural holes remarked by one of the participants [FIN-1] between people participating in the same industry, due to different intellectual or social backgrounds, who might not know each other – or just slightly so - despite the assumption, in such a sense, by the rest of the people (FIN-3). Thus, the *Club* could be considered more as a network, given minimal degrees of separation among the actors. However, it succeeds in conveying the meaning given by participants to a group of dominant players, active in an particular area, who tend to be seen as loosely structured, while conforming to relatively closed group (being the degree of closeness and formality empirical properties depending on each particular club segment analysed). Participants readily perceive the *Country Club* as traditional and conservative. It is called *elite* by some participants (SOP-1-2; FIN-3), and seen as sharing socio-economic similarities, acting in its own benefit as an incumbent group, and often acting against newcomers, in terms of preventing their entrance into the *Club* or, more precisely, to specific industries (ENT-1-2-3). They are perceived as clearly distinct from the public at large. Despite this picture of a relatively conservative group, traditionally associated with right-wing actors, the concept includes certain variation in terms of its members political affiliation. It comprises members of the left-wing, who are have become leading politicians in since the return to democracy in 1990, and who are currently perceived as part of the modern national elite.

One participant vividly describes the *Country Club* impact when sharing his frustration as a new entrepreneur attempting to compete against incumbents “who are not indexed to outcomes, people who think they deserve what they have, given who they are” (ENT-1).

Another participant describes the traditional Santiago Stock Exchange as “old structures, interlocking interests” (FIN-1), exhibiting flagrant conflicts of interest.

The *Country Club* context can be understood as generic; thus, it can be affirmed that the *Country Club* conceptualisation allows capturing an impersonal, timeless, setting-neutral context, as suggested by Glaser (1978). Therefore, it might be suggested that the *Country Club* could be conceptualised as the dominant players or incumbents in an institutional setting.

Such rules, according to some participants, would imply certain expected social behaviours. For instance, a participant mentioned as requisites: an orderly, or at least discrete, personal life (LAW-1); attending specific churches or educating children in particular high-schools (SOP-1), as well as corporate governance etiquette associated with respecting minority shareholders, dealing properly with managers, respecting governance structures (LAW-1), offering family owners appropriate advice (PHI-1), and keeping in mind corporate social responsibilities, (LAW-1), in addition to respecting ecological concerns (MAN-1), and acting with transparency (LAW-1). However, these rules might not be fully respected by some members of the *Club*, due to a lack of self-critical reflexivity, a sense of superiority or by a sensation of untouchability (GUI-1; SOP-2; ENT-1; PEN-1).

Therefore, a gap between *espoused practices* and *practices-in-use* is manifest and produces anecdotal evidence of some degree of *impression management*.

The following **Table 6** provides illustrative data, analyses the main properties and suggests the underlying primary categories associated to the *Country Club* conceptualisation.

Table 6 - Country Club Condition

CONCEPT	CATEGORIES	PROPERTIES	ILLUSTRATIVE DATA
Country Club network	Traditional, social and economic elites.	Feeling part of a social network, enjoying privileged conditions.	"[they] feel that anything is possible. License to gain... feeling self-important, untouchable... A lack of restraint that goes beyond money..." (LAW-1)
	Technocrats.	Social advantages inherited and naturalised.	"we, industrialists... have many tools to weaken, nullify competition". (BUI-1)
	Politicians.	A self-referent group.	"...in the DNA for many generations... they do not take the new laws seriously ... boards are circles among very few people." (REF-3)
	Media icons.		"They give themselves many awards... people believe that their viewpoint has a halo, that they are better than others..." [SOP-1]
	Top professionals, such as financiers, lawyers and managers.		"... this would require industrialists to be much harsher, punishing those that have gone astray and so demonstrate that they are the bad apple,... they don't suffer derision easily..." [SOP-1/2]

			<i>"Laws are frames that can be bent ... a sense of entitlement... overvaluation of personal added value" (FIN-1)</i>
Managing Impression	Social norms. Reputation issues.	Tacit expectations of appropriate practices of those belonging/ entering the <i>Country Club</i> . Preserving the group's reputation. Maintaining pretence of good behaviour.	<i>"...this is a legalist country, but an astute one, ...there is a relativity in business ... dodge legal aspects, not directly violating the law, make it appear ethically correct, but basically incorrect." (REF-3)</i> <i>"You didn't ask for permission to become rich; have gone from being an employee to being rich without realising that some norms need to be respected as part of the tribe of industrialists... acting correctly... even in your personal life..." (LAW-1)</i> <i>"[incumbents] believe their own publicity" [ENT-1]</i>
Resisting change	Delayed insights. Blocking changes.	Delayed comprehension: <ul style="list-style-type: none">• Excessively long tenures• Lack of self-criticism• Lack of reflection• Sense of self importance Taking power for granted No incentive to change Sense of entitlement Overestimating personal contribution Loss of reality check.	<i>"The Stock Exchange was stuck. Permanent re-election." (LAW-1)</i> <i>"Everything seems normal... a spiral you cannot quit. The firm is missing reflection, reality check., not reading what is happening in the world." (PHI-1)</i> <i>"... business take for granted its importance and expect the president to visit them and to explain her policies." (PHI-1)</i> <i>"We have a dominant position... auto-complacency is easy, thinking that we have power per se, that we are not going to lose it. ... 4 groups dominate 98% of retail... easy to lose humility." (PHI-1)</i> <i>"...Feeling untouchable. The silence of the business class. Secret negotiations. Bad faith." (LAW-1)</i> <i>"No trust. Perfect argument to maintain status quo." (ENT-1)</i>

Summarising the *Country Club* concept captures an *esprit de corps* including ethos, interests and norms expected-to-be-respected by insiders to protect the reputation of the Club. Likewise, common interests of *Country Club* members reflect the objectives of maintaining control, making selective use of laws and using self-governance and wit to bend ethics, while maintaining the concern of preserving an untarnished reputation, at least superficially.

Whilst the structural economic context is characterised by few players, with certain business groups controlling concentrated industries in a small country with unequal distribution of wealth and - existing but challenging - progress opportunities for upstarts. The *Country Club* is typified as exhibiting delayed insights, resisting change and attempting to put obstacles in front of emerging social and economic forces.

In an opportunistic exchange of opinions with an acquaintance with a long career as CFO of leading business groups, when hearing about my research, he spontaneously confided: “I have witnessed grotesque conflicts of interests of controlling groups against the bests interests of the company they serve as directors, ... stone-faced, without modesty, not ashamed of themselves on the least, and in front of all the board, watching without saying anything!!! And I say it in plural, many cases” (DOG, 2016, personal communication) and when I asked him why he thought that could happen, he answered: “because they are who they are: the rationale is how influent they are, the money they have got, the small group of referents with whom they have dinner, ...the son married with ..., being relative of... etc.” (ibid.).

5.1.3 Causes: Institutional Entrepreneurship.

Strauss & Corbin (1990) define causes as occurrences, instances or goings-on that lead to the occurrence of a phenomenon or influence it. Thus, my question to the data is what happenings are tensioning the context in the arena of corporate governance?

I would summarise that according with the interviewees a set of long-time established pre-conditions, derived of the historical context, appear to be clashing against recent social and economic developments generating a highly volatile, uncertain, complex and ambiguous scenario.

Participants tend to agree that the traditional context analysed above is currently being tensioned by a set of increasingly empowered stakeholders. Some of them mention that the entrance of pension funds opened the doors for the participation of a wide variety of minority investors in the Chilean capital market. Adding that those new actors are not easily silenced, that they actively fight for their rights and are increasingly able to successfully challenge majority shareholders, often with the support of diverse parties such as specialised lawyers and some increasing level of protection provided by regulations and authorities (REF-1; FIN-1).

One participant (FIN) described a situation in which he and his fellow minority investors had hard time attempting to challenge a transaction of a major corporation with one of its related business units independently listed in the stock exchange that affected negatively minority shareholders. At the starting point of the conflict he was informed by the company officers in friendly albeit patronizing terms: “don’t bother us, don’t lose your time, FIN, we never lose this kind of legal trials” [FIN-1] After two presentations dismissed by regulators, FIN and his co-investors kept

insisting for years to be heard, to be finally compensated by the corporation with the consequence that a top manager of the controlling corporation was removed from his job as result of the affaire.

The recent trends causing turbulence include the sustained expansion in the number of newcomers into the investment community -including small investors and activist investors-, the continued professionalization of -closely monitored- pension funds investing activities (REF-1). REF (1) refers to the rebellion of minority shareholders demanding more complete information, enjoying many rights and denouncing incidents ending as governance scandals.

These stakeholders can also comprehend communities. For example, the local rebellions against large corporations contaminating natural areas, in special the case of dying swans in southern Chile due to contamination of a river by a plywood plant and the equally polemic case of a bad-smelling plant processing pigs that was successfully battled by the community and that was subsequently closed down by decision of its controlling-owner. Both cases are frequently cited by participants, stressing the outcome of both plants paralysed with the consequent loss of hundreds of million dollars in investments and related jobs [BUI-1; MAN-1; BPO-1].

ENT (1) describes his own entrepreneurial serial disruption of mature industries as a professional vocation to attempt democratizing sectors, business and social activities.

Besides the obvious possibilities offered by new technologies for social networking, interactive communications and fast diffusion processes, these have had the effect of favouring social *peership*, a major effect in the context of a traditional highly hierarchical society (Guzmán, 2016). Thus, the public opinion has been increasingly able to provide feedback to big business, thus reinforcing the power of these new tools and the attractiveness of using (and abusing) them. Thus, a participant (ENT-3) mentioned the case of the polemic chairman of a football club, who entered incognito into the chamber of a referee at a stadium in the mid time of a football match, denying the fact afterwards, without realising his public exposition in an event in which every spectator is potentially a cameraman. Another participant (BPO-1) cited the book by Foreign Affairs editor, Moises Naim, *The End of Power* (2014), to illustrate the loss of power of different entities, including the Catholic Church, corporations and government, among others in front of the public-at-large.

Other factors are thousands of new entrepreneurs (ENT-1), more robust regulatory agencies (REG-1-2), assertive fiscals investigating economic offenses eager of ventilating through the press their findings and self-promote their moves (BUI-1), and the recent strict ruling of justice against two well-known businessmen that ended in jail – harsh punishments not seen in Chile in more than twenty years.

In addition, an empowered society fuelled by independent new media, and a young and vibrant democracy, as well as by 30 years of economic progress and social development (REG-1). Society has grown intolerant of discriminations, rejecting the sense of entitlement of some of the new players –alien to the widely perceived traditional austerity of leading family businesses (LAW-1). The scenario is compounded by the aggressive actions of a left-wing government, with low level of public support, carrying a series of polemic re-foundational reforms, with uncertain effects, in the middle of an economic crisis (PHI-1).

Rules broken include collusions, frauds, systematic exploitation of minority shareholders, environmental crises, corruption, insider dealing, public officers in the private roll of business groups, illegal political financing by business, tax evasion and managerial abuses, among others. Some add to the offenses the non-transparent privatization process by the Pinochet Regime in the 80s that ended with some formerly state-owned companies in hands of those in charge of privatizing them –many of these subsequently involved in scandals (SOP-1; BUI-1; GUI-1; BOP-1).

Therefore, according with participants a change process is under way, although it's ending point is unknown, and the situation is seen by some observers as 'liquid', unstable, volatile (SOP-2). Some change has already happened (BUI-1; GUI-1; LAW-1), but certain members of elites are still resisting it, and might continue doing so (SOP-1). According with participants more social control, and increased expectations of transparency and accountability are being put in place (REG-1). So resisting parties continue falling down and experiencing a negative social reaction – often verbal offenses in the streets and public sanctions are perceived as stronger punishment than the lagged reaction of courts of justice- and according with some, some seem unable to realise what is going on around them [SOP-1].

Therefore, some call for a creative introspection to find a way ahead (SOP-2). This seems to put a special pressure on boards as the main governance bodies [PHI-1]. And therefore, adopting new

professional practices appear as a necessary change for many interviewees (GUI-1; LAW-1; MAN-1-2) and according to some participants (MAN-1; BUI-1, LAW-1) -although not all of them (SOP-1, for instance disagrees)- a change process might be (slowly) going on.

Table 7 shows illustrative data, its main properties and proposes the underlying main categories associated to Institutional Entrepreneurship as a causal condition.

Table 7 - Institutional Entrepreneurship

CONCEPT	CATEGORIES	PROPERTIES	ILLUSTRATIVE DATA
Institutional entrepreneurs Challenging the Status Quo.	Empowerment of emergent stakeholders	New stakeholders accessing more information and supported by laws and other actors acting with more autonomy. Empowering. Requesting accountability.	“there is a spread extension of socio-economic groups investing ... minority shareholders have invested in many companies, they are protected by new legal regulations ... these laws require companies to provide complete information and reinforce the rights of minority shareholders, who attend the AGM ... rebel and denounce [abuses], driving the situation to end as new corporate scandals” (REF-2) “...there is an immense socio-cultural transformation... in which people are better informed and have more antennae ... and an economy that is changing fast and these things are not adjusted for, so we are living a moment of readjustment ... that is why the logic of yearning after the past time, when things worked differently is not at all useful.” [SOP-2]
	Stakeholder distrust.	Asymmetric interrelations no longer tolerated.	“the country has difficulty in achieving basic interpersonal trust... there is a resentment of minority shareholders, consumers, users, and workers against the complicity of public and private sectors. All the weak ones who are many in the country feel that they are in relationships of perfect asymmetry...they always screw you ... people are full of expectations to alleviate their situations” (SOP-1) “... a UN study concluded that the greatest problem of Chile, ..., which prevents full development is the low level of interpersonal trust ... your word does not mean anything without legal records Everything works over complex levels of regulation, while capitalisms are much more dynamic than that...” (SOP-1) “... there is some polarisation vis à vis business, ...instead of being a natural part of the economic design, that creates progress, it is an object of suspicion, hence the need to be treated like toddlers, lads who are always putting themselves and others in danger” (SOP-1) “...citizens are not prepared to accept (mock-ups), it is not enough to respect the law, ethics need to be considered” (REF-3)

	Strengthening social control	Expectations of transparent and consistent actions Ethical demands v. market abuses	<p>“The values of society have changed as part of the social networks and the public discussion of laws. The media reflects these discussions in parliament, and opinions appear, and there are change in values going on. And this affects institutional investors, especially those that have relevant social functions, such as pension funds. Things that happened in the past are socially questioned today: so, what did you do to stop this? ... and did you prosecute those executives or not? And if you did not sue them, why didn't you do so if they acted illegally and you lost money? and the money that you are managing belongs to the Chilean workers? So, you must make best efforts to avoid been assessed as negligent and you must go to the very end with it. So, there is a great social demand on investors, especially pension fund and insurance companies and who have a responsibility for the workings of the country's social security system. So, they are obliged, they do not have option, they need to act, and that is what they have been doing in the few last years. If the past a would-be private conversation with an executive, today needs to be public. Actions are becoming visible to society. People like to know that they are complying with their duties”. (REG-1)</p> <p>“the important thing is that the public humour vis-a-vis free enterprise, market, and capitalism has changed ...the Polar [scandal] case happened in a very complicated moment because at that time the Piñera (centre-right wing) government was facing the students movement, that had ethical arguments with a symbolic-cultural content about public education, not a wish list, just when the market economy produced a case of abuses against the poorest people who shopped in these retail stores” [SOP-2]</p>
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The causes driving the (current) process can be related to the empowering of stakeholders combined with their lack of trust in institutions, and the widespread distrust of traditional elites.

At the same time, the empowerment of people has facilitated the emergence of expectations of new institutional logics, related to higher standards of transparency, and more consistent behaviours, all under a more stringent social control generating a more effective public accountability. In terms of governance this brings an increased attentiveness to corporate practices by extremely alert and demanding stakeholders.

However, the observation of the categories of current institutional entrepreneurs, namely students, public prosecutors, regulators, pension funds, normal citizens, among others, implies recognizing the roles of previous institutional entrepreneurs, such as the Chicago Boys who built the main modern economic institutions, and the centre-left politicians and technocrats who led the

democratic transition, rebuilding the representative institutions of the country after the dictatorship.

For instance, the young Minister of Work serving in 1980, who observes the heavy deficit carried by the state to pay the retirement of workers and contrasts the collectivist ideology of such old system with the individualist logic dominating the country those years. His subsequently design of a new-to-the-world private pension fund fuelled by individual pension savings was one of the most relevant institutional developments of the period –few years later widely imitated around the globe.

5.1.4 Covariance: Regulatory Upgrading & Enforcement

Glaser (1978, p.74) introduces the idea of covariance in his coding families as connected variables developing in parallel, co-evolving, thus having some relationship, but although not having direct causality, yet still able to exercise certain influence, to explain a phenomenon.

In this section the question is what circumstances coevolved with the causal conditions around the corporate scandals? The changes in regulation are systematically seen as both causes and consequences of scandals. The former is seen as manifestation of voids of the regulatory system permitting sustained abuses and generating public outcry. The scandals are catalysers of new mechanisms, such as self-denunciation by members of cartels and enlarged powers of investigation of regulatory agencies and public prosecutors.

The participants have a wide range of views about the status and evolution of regulation. For some they are still underdeveloped [ENT-1]; for others they have been steadily progressing as part of the incorporation of Chile to OECD countries [REG-2], although they still have a way to go; and for some there is already a high standard that the business community is not enough aware of [REF-1]. However, in general regulatory bodies are perceived as a force to be increasingly reckoned with.

As part of such evolution some participants stress the historically high fines and harsh penal measures involved in the last sanctions to those involved in governance scandals compared with milder traditional punishments [FIN-1; 2]. Although other participants are puzzled by parallel, not well coordinated, and even contradictory [BUI-2] initiatives of public prosecution, tax and

regulatory agencies. Some observers see such discrepancies as demonstration of independence, autonomy and part of the inner strength of institutions in Chile [REF-2].

Table 8 shows illustrative data, analyses its main properties and proposes the underlying main categories associated to the updating of regulation.

Table 8 - Updating & Enforcing Regulation

CONCEPTS	CATEGORIES	PROPERTIES	ILLUSTRATIVE DATA
Regulatory Activism Updating & Enforcing	Consistent upgrading of the regulatory system. Global regulatory convergence. Inconsistent enforcement among different agencies. Regulation becoming a force to be reckoned with.	The process of updating the regulation has some features: • It is externally demanded due to the inclusion of Chile in the OECD • It lags behind the speed of the market evolution, • It requires permanent update Crises propel a drive towards upgrading processes. Upgrading is part of the process associated to economic development. There is still a precarious civil servant system in place, which affects efficiency of regulatory institutions (watchdogs). Regulation is still not proactive. Tougher sanctions are producing an impact and a change in behaviours.	“...authority is slower vis-a-vis the velocity of the market... Authority sends minutes and letters....” (FIN-1) “[it is required] to permanently up-date norms, because new forms of breaking them keep appearing ...” (PHI-1) “crises become challenges for companies to improve... from crisis to crisis the country progresses, takes advantage of them and solves them... crises mark Chile, which is still adolescent in its development... reactions to scandals drive an evolutionary process...”. (REG-2) “Chile has travelling on a good path. That is why there is a scandal when these things happen... many things that were <i>usually</i> done will be forbidden. It is the only way for Chile to become a developed country. Good institutions create GDP”. (REG-2) “...autonomous institutions are needed, with teeth, few rules, but with absolute clarity about their objectives, to comply and to demonstrate that they are doing what they were created for. This requires appropriate leaders... institutions are conceptually well organised, but badly led ...”. (PEN-2) “Regulatory supervision does not function well enough; known cases were discovered by whistle-blowers, not by the proactive actions of authorities... until Mr Délano and Mr Lavín were put in jail, no one thought this could occur”. (SOP-2) “Boards are paying more attention to the new Law about money laundering and drug trafficking. Firms might even be wound up. Sanctions are worse when boards do not take corrective actions. For instance, collusion or illegal financing of politicians. Major change in company governance. This thing changed! There are things that cannot be done anymore. There is preoccupation for compliance, turnarounds...” [REF-2] “... I am surprised how many different visions of the State have been arising among state agencies, just like that, sectorial and group-based...including political perspectives. They are taking very influent decisions, ..., the Prosecutor suddenly said: this is like that, and began

		<p>Boards are beginning to take stock of this update in laws and regulations.</p> <p>There is a simultaneous stirring process of different justice and regulatory agencies, producing perplexity, confusion and misalignments</p> <p>The changes are seen to be positive and required to reinforce the institutional strength of the country;</p>	<p>shooting and spreading a problem difficult to stop now, courts, IRS, everyone has its own agenda...” (BUI-2)</p> <p>“... institutions are working well, and I expect they will continue doing so, that there will not be underground deals to hide [affaires], or to go for a clean new start, ... people are not unable to accept that, today”. (BUI-2)</p> <p>“I believe that Chile has had a positive evolution in the few last years, standards have been improving, and demands too ... and the facts that have driven to crises...have led to legal reforms, with major impact in the culture of companies, and in boards and in their corporate governance”. (REG-2)</p> <p>“In Chile in the last 20 years there has been significant institutional change, in the securities market, insurance and in all financial markets, also in preserving competition... and protecting markets. With a growing, ever more complex economy, now there is antitrust, electrical regulation, sanitary regulation that have been renovated or developed in the last years. So new institutions have been renewed, for instance to protect consumers, because there have also been abused...” (REG-1)</p> <p>“...the laws have changed, the company law has changed, the norms and minutes of the Chilean SEC have also changed. And the demands for information and responsibilities at board-level are much larger than they used to be.” (BOP-1)</p> <p>“...putting people in jail modifies behaviours” [FIN-2]</p>
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Consequently, participants observe that traditional arrangements are being increasingly challenged and that boards (and companies) are subject to conflicting calls, resulting in an increased level of *uncertainty* and *volatility* when compared with the old *certainties*. This brings a loss of predictability. Therefore, a fuzzy *logic* seems to be the order-of-the-day, in which tolerance, deviation and discipline go together and are overriding the old certainties of previous governance *logics*.

5.1.5 Contingencies: Scandals Making Transparent Governance Deviance

Merriam-Webster online Dictionary defines “contingency” as a “juncture whose outcome will make a decisive difference”, which is a critical connection or intervening factor that produces a significant effect (normally negative). In this research, the main contingencies identified by the participants are the corporate governance scandals. So, the question is what produced them?

The following **Table 9** shows illustrative data, analysing the main properties of corporate governance scandals and proposing the underlying categories associated with the process of

making the incidence of previously hidden events more transparent to the general public and leading producing public turmoil.

Table 9 - Scandals Making Transparent Corporate Deviance

CONCEPT	CATEGORIES	PROPERTIES	ILLUSTRATIVE DATA
Making Transparent Corporate Deviance.	Making transparent incidents as a catalyst for scandals.	<p>Extended access to information has been exposing irregular procedures, conducts and mismanagement of conflicts of interests, collusion and frauds affecting public-at-large.</p> <p>An increased level of transparency is increasingly available and expected.</p> <p>Expectations of consistent behaviour and information on what leaders are up to.</p> <p>Considering actions of leaders as public facts, so subject to open scrutiny.</p> <p>Transparency occupies a central position.</p> <p>Most incidents (scandals) have come into the public domain because of internal whistle-blowers, ratting, international and leaks.</p> <p>Transparency as a catalyser of scandals.</p> <p>Transparency as specific expectation of society.</p> <p>Aggressive leaking of information by authorities.</p> <p>Corporate deviance becoming transparent.</p>	<p>“... due to increased transparency, we have had a cascade of cases that have exposed the ugly aspects, because they are all deceptions of public faith, taking advantage of private information, violating legal obligations, tax evasion, so an ethical discussion arises, I cannot say that it is worse than in the past, but the cases are better known than before, there is more transparency in society to learn about it” (BOP-1)</p> <p>“... we now live in a much more transparent world, today you cannot hide things, because there is a high capacity of accessing loose information... having secrets is much more limited ...” (BOP-1)</p> <p>“... information leak by [whistle-blower] Hugo Bravo who sang as a canary and told it all in the Penta scandal episode...” (REF-1)</p> <p>“...as soon as State agencies discover dirty facts they ventilate them publicly...” (BUI-2)</p> <p>“... press has played a great role in publishing this or that sanction. The sanction for many is in the press, not in the prosecutor... of late, the press and media in general have acted well. Denouncing everything, sometimes exaggerating, they have been unfair, but mostly in right measure. They may exaggerate, offend people more than what they deserve, but they are never too lost”. (LAW-1)</p> <p>“...today, what is saving Chile ... is transparency. Today we are transparent. We have learnt the hard way. We have learnt to see our friends fall”. (LAW-1)</p>

Making transparent (or putting information on private events into the public domain) is the key basic social process that has been going on, whether through leaked information, self-accusations, and investigations by regulatory agencies and prosecutors. The media plays an important role in disseminating these events. The return of democracy has given the press greater degrees of

freedom. The appearance of electronic media and social networks has only served to amplify the process [BUI-2].

Corporate deviance is what becomes transparent in such processes. Behaviours in direct conflict with a company's corporate image, official declarations and public, as well as private, expectations. This gave rise to the series of corporate scandals; reinforcing the fall of public trust in elites, including key political and business bodies and players.

Hence, the impact of deviance is not limited to culpable actors. Thus, there is a phenomenon of categorization that drives to spread the loss of legitimacy as a reaction to individual cases of organizational deviance.

Therefore, corporate scandals lay bare layers of objectivity by putting into question the predominant institutional corporate governance *logic* and setting in motion the gears facilitating the emergence of competing *logics*.

5.1.6 Consequences: Social Accountability of Elites

Consequences can be defined à la Strauss & Corbin (1998) as outcomes or interactions or failures of persons or groups to respond to the situation created by their dealings. Consequences are the last of the six properties of the basic social process responding the question: “what is going on?” around corporate governance scandals. And as such it is directly and indirectly influenced by the five previous “Cs”: *context* is present as the predominant institutional logic; *condition* reflects the surface corporate governance compliance derived from delayed understanding of the ongoing social processes; *causes* are generated by newly empowered actors problematizing the status quo and pressuring the institutional arrangements out of its traditional stability by questioning governance practices; *covariance* is the increasingly updated and enforced regulation giving leverage to those challenging the established governance practices; and *contingencies* act as catalysers of change by revealing the gaps (deviances) of governance practices in use.

Therefore, the consequences are an outcome of former interactions, and represent what is at stake in the current predicament and potentially a drive towards new institutional arrangements. The following statements from participants help to visualise stakes and ongoing –and future– consequences (see **Table 10**).

Table 10 - Corporate Governance Challenges

CONCEPT	CATEGORIES	PROPERTIES & INDICATORS	ILLUSTRATIVE DATA
Making Elites Accountable	<p>Corporate stigma.</p> <p>Corporate social accountability.</p> <p>Social demands to business.</p> <p>Disconnection of business and society.</p> <p>Forcing a search for new governance answers.</p>	<p>Governance scandals have tarnished the reputation of big business.</p> <p>Immorality is perceived as a common property among business.</p> <p>The high concentration of markets exacerbates the impact of scandals; and its consequent effect on public opinion.</p> <p>A prevailing sense of impunity and lack of justice.</p> <p>The social impact includes the stigma of the business class.</p> <p>Industrialists are seen as alien tycoons and not a normal part of society.</p> <p>An increasing conviction that conduct of companies should be responsible on their own, beyond the will of their owners and, thus, be more accountable to society.</p> <p>Some degree of social decomposition.</p> <p>Social demand for corporate social accountability.</p>	<p>“That means that there is an sickness installed at the top of companies that is terribly strong ... those industrialists who own the companies who do not react in front of this [case] ... the whole system enters into a spiral, fed by one and other and other and other case, ... the legitimacy of the private enterprise is at stake in the country ... and big businesses are more relevant in Chile, where there is a very high level of market concentration ... so a trait of immorality in the construction of these companies, given their monopolistic power, has an effect of moral decomposition on the whole system ” (BPO-1)</p> <p>“The case of Bilbao and Hurtado [insider trading scandal] is about using privileged information [obtained] as part of the board of the company ... they have just given USD92 million as guarantee to the SEC, so it is a case of immorality in the leadership of a company, [which is] easier to get away with here than in the US, ... so there is a feeling of impunity around this, which speaks of a very damaged corporate culture”. (BPO-1)</p> <p>“...the persons involved [in several scandals] have very relevant positions in the Chilean business world and were very prestigious, so the way they managed themselves has surprised many people, and several among them have ended very damaged. That is why these cases have had such a great impact” (MAN-1)</p> <p>“...the current trajectory is that business is becoming more social both internally and externally...so everything becomes part of the responsibility of the firm, ... more subject to social scrutiny than ever before ...” (BPO-1)</p> <p>“...classical industrialists got lost when they locked themselves up on a crystal tower and the Chileans stopped seeing them as common people ... walking the streets” (PHI-2)</p>

The consequences can be broadly conceptualised as a social demand for accountability from corporate elites in terms of their governing practices. That is, stakeholders’ expectations are presenting challenges and social demands to governing elites, which according with participants to date have not been up to these requests. Consequently, there is a loss of public trust and a heavy loss of legitimacy of political and business elites, as well as some level of social decomposition in

the forces governing the country. This situation is making corporate elites accountable and thus threatening with tarnishing their identities (Glaser, 2015, personal communication).

This situation is consistent with the reality of Chile being a small country, with a mid-level of economic development, a still unequal distribution of income with a limited number of wealthy families controlling most large companies in highly concentrated industries.

The previous analysis conceptualises the main concern at the corporate governance level faced by participants. Thus, we need to identify how they are processing the problems they are facing in their professional governing practices. That is, to conceptualise their responses and reactions amid action. I come back to this point in Chapter 6, in which I develop the theoretical sampling of actors' actions in response to the above-mentioned challenges.

CHAPTER 6 - THEORETICAL SAMPLING

In this chapter I engage in *Theoretical Sampling* to deliberately seek happenings, incidents and movements to elucidate action on the ground. Thus, on the one hand, I direct the data search and analysis to develop an emerging theory (Stern, 2007). And on the other hand, this process corresponds to the action loop of the AR process.

Hence, I explore the actions being developed by actors in their endeavours to resolve their main concern, based on the inputs of the participants and the data collected, and I propose a model of action to understand these ongoing actions.

Morse argues that theories emerging from research might not fit perfectly with the specific experience of a particular participant (1998 cited by Dick, 2007), while according with Bradbury (2015) AR is based on experienced, fractional, emergent, and perceptual. That means that learning often comes from making the invisible, latent patterns visible. Therefore, capturing the maximum variation is key (Dick, 2007; Creswell, 2013). If the variety of participants is limited for practical reasons, such as accessibility, time or the nature of incidents investigated, diversity might be obtained by focusing in divergent postures towards the same phenomenon (corporate governance challenges derived from scandals in this research).

In this research participants exhibit a myriad of different attitudes, feelings and actions. So considering that GT “...is not findings, not accurate facts and not description ... [but] conceptualisation integrated into theory ...” the actions developed by actors in the governance arena can be conceptualised by asking: “what are people doing? And why are they doing it?” (Glaser, 1978, p.94). I next revise such set of actions.

6.1 Ongoing Actions

The Chilean governance arena is populated by a group of actors who have been operating for almost three decades under a set of emergent manifestation of shared beliefs, non-written norms of behaviour, conventions, codes of conduct and implicit mutual expectations. The testimonies of participants show that many of these tacit agreements have been badly shaken; and some have even broken down by a series of corporate scandals and social challenges. These events have left actors wondering how to avoid been involved in such occurrences, both personally and at the organization level. Thus, while participants perceive clearly that traditional governance practices

are under hard questioning, they also suspect that their own practices might fall under public scrutiny, given the expectations of social accountability surrounding business and the increased transparency of events in front of the public eye.

Given the loss of a framework of reference to guide conducts, previously associated with the previous institutional logic, and the challenges experimented by the *Country Club*, actors are being obliged to revise their conducts. Thus, they are re-negotiating expectations, and engaging in actions –and/or public demonstrations- consistent with new norms. By the same token, such micro-behaviours might be reinforcing an eventual institutional change.

We can conceptualise three of such patterns of actions following a triple pronged development, including some crossings and tensions between them.

The three concepts derived from the grounded data are ideal-type actions of taking distance from, deal-making with or directly defying the *Country Club* practices. This configuration tell us the strategies been applied by participants in the governance arena to manage the problem of governing under increased uncertainty. Naturally, this represents a challenging situation for those actors given the lack of a previous background to guide their actions in the middle of changing circumstances.

Thus, strategies of the main actors in the governance arena could be conceptualised around two main poles, collaborative or competitive according with their focus on co-evolving or confronting the *Country Club*, respectively. These could be action-based or attitude-based. However, some attitudes cannot be readily allocated to co-evolving or confronting signs as they appear to cover a range of somehow nuanced perspectives on a continuum ranging from collaborative to competitive postures, as shown in the following **Figure 5**. That is why I highlight three main ideal strategic options, namely distancing, deal-making; and defying.

Figure 5 - Patterns of Action

“Coopetitive” Posture / Practical Orientation	Cooperating	Confronting
Action-based	Deal-Making (lobbying/manoeuvring/ resisting/banding)	Defying (Enterprising/innovating/ mobilising/competing)
Attitude-based	Distancing (practices/attitudes/styles/values/generations/leaders/ <i>questioning/preaching/individual-group self-reflecting/ legitimating/Aligning around values</i>) Ethical Sanctioning (verbal/public/formal/reforming bylaws/punishing to educating)	

Next, I analyse each one of these three patterns of action.

6.1.1 Distancing: Institutional Re-Alignment Pattern

In unstable conditions, sensible actions are not easily devised, the predominant emotions of shock [PHI-1], affliction [REF-2], sense of shared responsibility [MAN-1], might blunder the way ahead. Therefore, most of the primary reactions are consistent with distancing from common *Country Club* practices. For instance, taking more seriously board work [LAW-1], revising old attitudes [LAW-1], questioning traditional styles [MAN-2; GUI-1], and even refreshing implicit group values [REG-1/2], preaching for more ethical behaviours [GUI-1] or for harsher punishments [REF-2] or just waiting and seeing what happens [PHI-1]. But reactions can also take more concrete and decisive aspects, such as propelling internal moves attempting to replace old leaders too committed with traditional styles of governing, with new generations [MAN-1/2]. This implies selecting and retaining new kinds of leaders aligned around the current institutional logic [REG-1/2]. It might also imply sanctioning verbal or institutionally offenders [BUI-1; GUI-1; [SOP-1]. Conversely, others may present a variation in these kinds of behaviours and attempt to get the suspicious ones, e.g., businessmen and politicians, together with the idea of fostering mutual

understanding and thus attempting to construct common solutions to deal with their commonly tarnished identities [BOP-1/2; Glaser, 2015].

Structurally, most of these insights, alerts and preoccupations might imply a stronger role taken by reputation management policies and/or departments within large companies [REG-2] or direct preoccupation for such issues at the board. Thus, firms typically begin analysing their inner identities, values, and culture within their long-term value creation intent. This kind of process is usually continued by a process of self-questioning about the gaps found in practice between actual and expected relationships with workers, community, environment, the state and its different agencies, as well as the political world [REG-2; MAN-1]. These efforts combined should be expected to tend to make companies more robust and increase their social capital in the long term (Bourdieu, 2005).

Overall, these behaviours point toward a hypothetical process of raising standards and setting new and higher level of expectations that might on time propel in motion a realignment with the new institutionalisation logic. This kind of initiatives could centre on a new equilibrium of more professional, accountable and responsible dynamics.

Table 11 - Action Patterns of Distance-Takers

CONCEPT	MAIN CATEGORIES	PROPERTIES & INDICATORS	ILLUSTRATIVE DATA
Distancing from the Country Club practices	Responsibility of leaders Sense of higher purpose Unifying role of values Adapting/updating internal governance Learning in process Changing time-old habits Differentiating between traditional actors and upstarts	Actors taking distance from wrongdoers, replacing, criticizing, suspending and denouncing them Actors preaching good practices reinforcing bylaws. Transparency, open communication are preached Some see the offenders mainly in traditional groups, whilst others see them in more recent dealmakers. Increasing ethical sanctioning	<i>"this is not delegable and must come from the chairman, but the problem is that most of them are from the old school, so a generational change is required, and we need to change the image [of business]" [MAN-1]</i> <i>"I would like to write what's the kind of firm we expect for the XXI century, what are the good practices, which is the mission of enterprise in society, which are the values to be held within the company...it is an issue of values." [GUI-1]</i> <i>"The main thing I would correct, is that we have to continue preaching and keep preaching about the social responsibility of companies' values and the ethics of business of generating value for all" [GUI-1]</i> <i>"We changed our bylaws to suspend wrongdoers" [GUI-1]</i> <i>"...when you lose trust in the regulator, ultimately your try to evade it as much as possible. Or you create a bureaucracy, like</i>

			<p><i>the one that I am arming with lawyers. Never before have I had a full-time lawyer, now I have two, but I also have external consultants, then I'm "spending" grants in [learning to] moving in this new scenario. It's a trial period for both sides..." [PHI-1]</i></p> <p><i>"It was necessary to correct habits, many. For example, in the stock market everything cannot be regulated. Today we care for customs, we care for the due care, we care that an order be given through an email that a counter-order is given through another... treating people with respect, avoid overpowering an underdog, to respect him. If a shareholder who has got just one share goes to an AGM, respect him to be duly heard." [LAW-1]</i></p> <p><i>"it is OK to regulate some things, but we need to be able to trust people's criteria otherwise we will be chasing them permanently, and we will have trouble functioning in such environment" [MAN-2]</i></p> <p><i>"I will be politically incorrect, there is a tough cultural problem, ... because there are many new players. Chile was a small market and suddenly it grew exponentially, and newcomers who don't have such culture appeared... traditional families have a culture of how to behave in business.... There is a large group of newcomers, who emerged in the last two decades, privatisations during the Military Regime. You see that there are them who are producing the problems, Ponce is the prototype of these deals, Enersis and Chispas cases were great deals, too. All those are new-borns. So, I think we have a major cultural issue of emergent players that are not up to the standard, ... others have a Bible that no one can skip. So, newcomers will need to learn in the hard way, this is the problem, it is them who are producing all the problems...because in this country many new business and investment opportunities aroused that attracted those players which have made money ...and then began living luxury lives, expensive houses and cars" [REF-2]</i></p>
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Therefore, a process of slow, including somehow contradictory moves, but still persistent long-term change could be getting in place, putting “still adolescent” countries like Chile [REG-2] in the path of a painful evolutionary development through budding new governance habits. Naturally, these new practices would need to be identified, adopted and developed by most leading actors. Although not all actors might be willing to act with the same purpose, the same conviction, nor the same interests, as we see in the next section. This type of actions would be backing up the affirmation [REG-2] that some –but not necessarily all- emerging markets learn from their crises,

take advantage of them and make progress from the point of view of the development of their institutions.

6.1.2 Deal-Making: Institution-Maintenance Pattern

Participants point to human agency averse to making short-run gains by profiting from turmoil. Indeed, crises might look like business opportunities for well-situated actors, and may appear as particularly attractive ones given the weakening of the dominant establishment, making it more important to have good friends, discrete helpers and well-connected bridges and networkers [ENT-3; REF-3; BUI-3]. This dynamic gives origin to a myriad of deal-making actions, lobbying, manoeuvring [BUI-3], silencing, cajoling and others, often presented under an apparent new and higher standard of conduct consistent with new and higher level of expectations mentioned above [LAW-1]. But this new correctness might be only superficial, while still continuing to ‘banding’ [REF-3], that is, making tricks look reasonable, honourable and even charitable, often hiding individual monetary and/or power interests below a mantle of technicalities, legalism and scientific outlook [REG-3]. According with some participants, these kinds of actors are solving the institutional challenges *à la il gatopardo* (de Lampedusa, 2014), in which the motto “everything needs to change to make things continue being the same”. These actions are all oriented to maintaining the old equilibrium and the power conceptualised in this research around the Country Club concept.

Table 12 - Action Patterns of Deal Makers

CONCEPT	CATEGORIES	PROPERTIES & INDICATORS	ILLUSTRATIVE DATA
Deal making around the disempowerment of the Country Club	Dealing with the disempowerment of the Country Club / Incumbents. Avoiding tarnished identities.	Lobbying activities, consulting engagements and both public and private persuasion campaigns to help dominant incumbents get away with their plans and actions in a context of increasing corporate questioning.	<p><i>"LAW came to persuade me to help him make the board of YY change its mind vis-à-vis the ZZ acquisition" [BUI-3]</i></p> <p><i>"Journalist [alluding to public minutes of a board meeting]: Why didn't you give your opinion against or your criticism regarding that [excluding a publicly listed subsidiary from participating in renewable energy businesses]?"</i></p> <p><i>[LAW]: Perhaps I kept silent tacitly supporting [a dissident director]. But I always wanted a good agreement between A and B. Of course, I am interested, but perhaps I was silent because someone else had already said it..." [La Tercera 29-11-15]</i></p> <p><i>"---The majority shareholder has the right to want its norms of management to be applied. A controlling party, without abusing minority, can always impose its vision on the business" [La Tercera 29-11-15]</i></p> <p><i>"I was an expert witness to demonstrate that the Superintendent acted wrongly in the XYZ case" [REG-3]</i></p> <p><i>"...XX is an old kind of director, chosen by the block-holder... thereby is in an implicit contract. He is very conscious that he will be treated by regulation as responsible in front of all shareholders. He knows his duty is to all shareholders... but, there is a risk-return calculation, probably it is a very rational decision... I will have these benefits, I will strengthen my relation and perhaps be part of the international expansion of the [block-holding] group." [REG-3]</i></p> <p><i>"These cases will continue occurring. We are in a difficult period and the executives are not prepared" [REG-3]</i></p> <p><i>"...do not discount the role of deal-makers, such as LAW and others. They are friendly, loyal, they do not criticize others, they reduce transaction costs... look at the case of XX, who did not make deals, raising costs to infinity..." [REG-3]</i></p>

From the point of view of the social capital at stake during crises, the natural consequence is that in a *tarnished identities* context, corporate reputation might become an actively traded commodity, leveraged by an individual agent's own identity and networks. This is likely to be even more dramatically stressed given short-term pressures to conform to a higher standard; while in the background the 'establishment' (Jones, 2014) might be struggling to maintain its privileged position, perquisites and associated power.

These behaviours then would be on the one hand directly associated to the weakening of the *Country Club* under the contingent shocks generated by the scandals. They can on the other hand, contribute to its maintenance and sustainability. Thus, this could give rise to a process of reinforcement of a culture of double-discourse. In this case, it could widen the gap between public expression and practice, reinforcing the slump of corporate reputations, and the overall loss of social capital.

6.1.3 Defying: An Institution-Renovating Pattern

An enterprising reflex should be anticipated from businesspersons - people of means, action and a practical, resourceful orientation [Memo 43]. Scandals reflect market imperfections, frictions - sometimes even sustained fictions - and lack of appropriate solutions to people's problems, so they should naturally offer chances of creating or discovering opportunities; the fuel of an enterprise. Such *enterprising* could have a social content, initial motivation and/or final purpose – alongside the profit motive that sparked the development of the original eventual market/service opportunity.

In this research the loss of power of the *Country Club* due to social empowerment, delayed insights, *making transparent* incidents, and updating regulations, according with some participants [ENT; FIN] provide diverse opportunities, associated with closing gaps between new expectations and old practices. For instance, providing alternatives furthering customer/user choice, while capitalizing empowerment, transparency and in-sighting by means of new products, services, platforms, technologies, etc., and further promoting these same attributes to increase the differentiation between standards of incumbents and insurgent actors.

Therefore, defying the establishment could not only be weakening it, but also profiting directly or indirectly from *Country Club*'s loss of power, while aiming to create economic and/or social value.

Table 13 - Action Patterns of Challengers

CONCEPT	CATEGORIES	ANALYSIS OF PROPERTIES & INDICATORS	ILLUSTRATIVE DATA
Defying the Country Club through democratizing opportunities	<p>Playing a competitive game.</p> <p>Rewriting the rules of the game.</p> <p>Challenging the establishment.</p> <p>Competing against the incumbents.</p> <p>Entrepreneurial action to compete and disempower the <i>Country Club</i>.</p>	<p>Entrepreneurship to overcome corporate deviations.</p> <p>Frustration and disappointment with status quo.</p> <p>Hot, sentimental feelings.</p> <p>Calm, cold, rational bets driven by the thrill of playing David against Goliath –incumbents.</p> <p>Rewriting the rules of the competitive game through enterprising. At the micro (industry), meso (associations) and macro levels (political platform).</p> <p>A proposal for a new pro-competitive paradigm is arising.</p> <p>Entrepreneurs attempting to get their views included in public policies to avoid incumbents capturing authorities as solo interfaces.</p>	<p>“... [feelings of] disappointment, anger. Overall anger... Lots of disappointment, power to do both evil and good. Triggered [my own] option of enterprising. Desire of contributing and grateful for the opportunities my family has had in Chile. I want to reinforce the system of liberties. To democratise.” (ENT-1)</p> <p>“... personally, I have had a deep and genuine process away from ideology. I have returned to a stronger conviction in free markets and freedom. But I have had to understand how the system works, you see the connections: ministers of economy and finance sitting on the boards of two main banks. At the beginning, I took it very personally, as a betrayal... [This] is not the consequence of capitalism, but of a captured market...” (ENT-1)</p> <p>“My attempts entrepreneurship have been to try to democratise education, entrepreneurship, financial services, politics ...”[ENT-1]</p> <p>“... [The Santiago stock market] has old structures, cross-interests ... so we invested our own money and created an electronic stock market from the scratch with different governance system, compensation plans, transaction fees ... and we did it for peanuts, just for fun.” [FIN-1]</p> <p>“We proposed to the minister: ‘There are entrepreneurs’... So, we are speaking to ministers to include in each Public-Private Table of Discussion the perspective of new entrepreneurs... we are asking authorities to act as promoters of competition, guaranteeing fair play, changing the paradigm of regulators. Taking up the mission of opening industries up to new entrants, to recognize them, assign them value, and to commit with them.” (ENT-3)</p> <p>“... [We are] taking advantage of technology to assemble citizens, increase participation, and using an e-platform to get [citizens] represented; to provide more information to citizens... to connect business, non-profit and associations...” (ENT-2)</p>

However, the response of incumbents to such moves still need to be fully understood. Indeed, the deal-making actions analysed above are only one kind of likely responses. Probably giving up in peripheral or marginal aspects should be one of the main tactics used while preserving the core

dominion. In the meantime, the *Country Club* should be expected to attempt to retain its power, keep protecting its interests and continue to impose its particular interpretation of reality; its central purpose (Fligstein & McAdam, 2012), while taking care not to compromise its stronghold. To what extent there is an actual re-design (an eventual fourth D, D4) from the core of the *Country Club* rests to be seen and researched, but it cannot be discarded - at least at a tactical level.

The testimonials of some participants provide a basis to hypothesize that such a defying process might not go smoothly or without a struggle and may even give free rein to direct counter or guerrilla warfare attacks from incumbents [ENT-1], given the de facto mechanisms in place protecting the *Country Club*, including captured regulators [ENT-1], crony politicians [BUI-1], powerful business groups controlling mass media [REG-2], and strong public relations levers.

Thus, the impact on social capital and reputation can be conjectured to be – at least initially - minor, slow to happen with an uncertain outcome, given the unequal resources of the players in conflict. Thus, alternative options might take time to materialize and even be subject to suspicion, given the generalised distrust affecting the country.

The enterprising behaviours reinforce the raising of standards, and the updating of institutions, but their impact might be slow, minor, and the renovation effort can also be swamped by effects of more powerful forces. Indeed, these defying patterns, combined with both the distancing pattern and - up to some point - even the tactical compliance associated to the deal-making patterns, might provide some momentum for change, but naturally, the consolidation of such superior standards should not be taken for granted.

Concluding, the action of *defying* capture, most of the variation going on in the institutional context: the increasingly empowered causal forces, the conditional resistance of the *Country Club* and the deal-making activities by its allies and go hand-in-hand with the co-variant updates in regulation, and the contingencies derived from processes becoming *transparent*. It also explains and catalyses the consequent demands of accountability placed on the business elite, called here the *Country Club*. It is also consistent with the distancing among those close to the *Country Club*, including even some members. This means disapproving tactics and actions – perhaps fearing the eventual tarnishing of their own identities -, thus pushing them to set new rules, criticise offending behaviours and attempt to stick with traditional values. It also encourages a call for a generational renewal of leadership, and, overall, an attempt to reconcile privileged social positions, sense of

belonging and conscience, with a compatible meaning system, without resigning to their (legitimate) economic interests. However, *defying* goes beyond all these reactions and attempts to represent the process of struggle of those enterprises looking to challenge the *Country Club*, as well as the institutional setting. In fact, these insurgents are working hard to change the status quo, but do not have any guarantee of success, given the powerful established forces they are going up against.

CHAPTER 7 - EMERGING THEORY & DISCUSSION

This chapter continues the conceptualisation process and presents and discusses an emerging theory. As explained in previous chapters this elaboration was conceptualised progressively starting with inductive open coding, and following with theoretical coding of the 6Cs sociological family (**Chapter 5**), complemented with literature revision, deductive theoretical sampling (**Chapter 6**), and the production of around 97 memos (see **Appendix 5 - Sample Conceptual Memos**).

7.1 Basic Social Process Conceptualisation

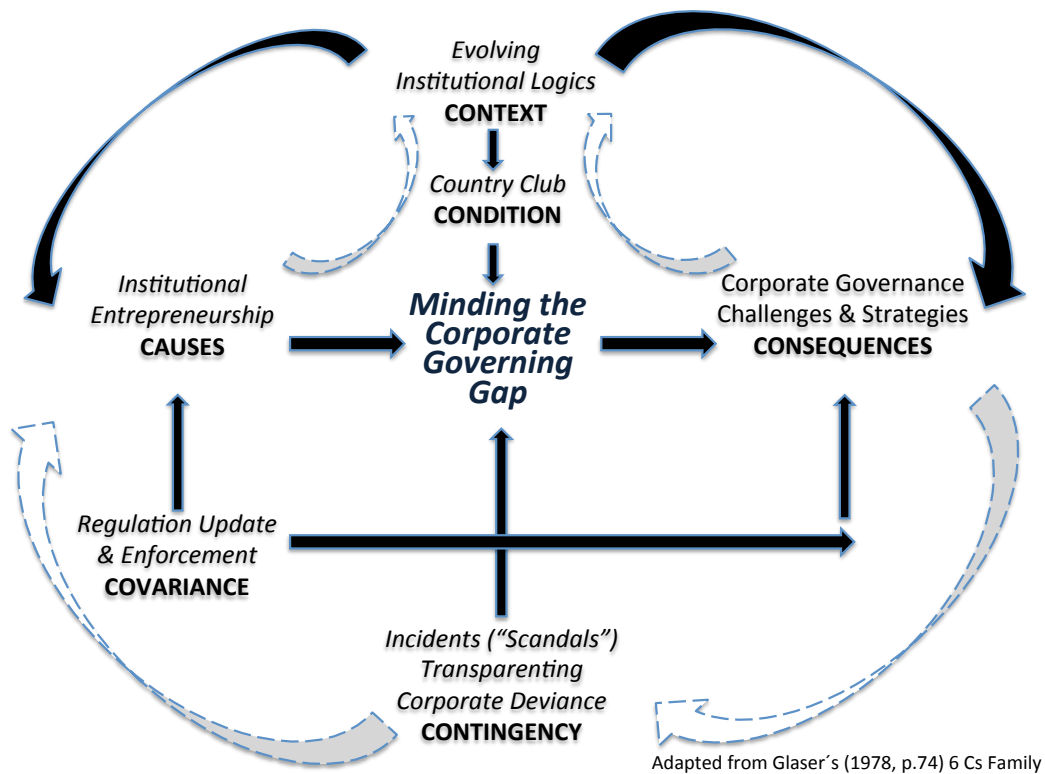
The basic social process proposed to conceptualise how participants are ‘processing out’ the problem of governing under uncertainty can be abstracted as *Minding the Corporate Governing Gap*.

Minding the Corporate Governing Gap is seen from the point of view of actors in the governance arena, and it means reviewing, selecting, developing, practising, correcting and feed forwarding – often in the midst of action- their governance options. This is a response to namely: the new transparency of actions, the empowering of challengers, the updating and enforcement of regulations, the resistance of *Country Club* members, the social demands for social accountability, and overall, the need of adapting to a new institutional logic. This last aspect implies an exercise of interpretation and learning in action given that the new logic has not been crystallised yet around a new paradigm; although it appears as divergent from the previously dominant institutional logic.

This appears as a basic social process, given that there are at least two stages: ex-ante and ex-post actions. Indeed, it implies observing, reflecting, acting, reviewing, evaluating, adjusting, and learning during the process. In addition, the actions identified ‘process out’ the need for continuous actions required by governing activities.

As **Figure 6** shows there are systemic mutual influences among various elements. The main links explained in Chapter 5 are presented as solid lines. However, the theoretical sampling (Chapter 6) suggests the feedback influences presented as white lines. Thus, the collection of micro governance strategies might reinforce the institutional logic (context) or help it to mutate. The consequences, might also fuel new contingencies (scandals) and stimulate further waves of institutional entrepreneurship. And these might contribute to the further evolution of institutional logics.

Figure 6 - Basic Social Process: Minding the Corporate Governing Gap



An example sketched in broad brush strokes to clarify the model: continuing with the story of the creation of an industry of private pension funds administrators (AFPs, in Spanish) by the Minister of Work in 1980. As explained in section **5.1.2 Condition: Uncertainty-Reducing Practices & Impression Management**, his action was coherent with the dominant economic logic of that period of time and reinforced this institutional logic. At the same time this innovation introduced the challenge of governing the investments of those new actors acting on behalf of Chilean workers. Thus, this slowly introduced a systematic improvement in corporate governance of the companies receiving their funds, including the need of introducing independent directors in their boards. Hence, a governing gap appeared that had to be closed by increasing professionalization in diverse areas of the system. The regulation of AFPs and listed companies also had to be upgraded to contemplate these new players. At the return of democracy politically linked actors were included in the boards of AFPs to cope with the exposure of these organizations to state power, responding to the new political institutional logic. This generated a series of deals, all legitimate although many indefensible, which sowed tensions that remained latent. In recent years, a social institutional logic characterises the current context at the country level. Therefore, some scandals related to abusive severance packages by politically-connected operators in a scenario of

low average pensions and a large number of people excluded from the system, have originated a “NO+AFP” social movement that is threatening the very existence of the system. This occurs despite record financial performance and recognition by their international peers. And the situation has been magnified by publicity about the bonuses of managers and impressive profits of the private fund management companies. Currently, many are pushing for radical reform. Therefore, leading AFPs have been implementing new governance strategies to attempt to align the industry to the new institutional *logic*. In addition, new entrepreneurs are attempting to create new organisations: low cost AFPs, not-for-profit AFPs, and a State-owned AFP, generating still minor, but increasing noise in the system, and challenging regulation and governance practices. At the moment of writing this research, the process is far from concluded: the government is pushing for new legal reforms to reinforce solidarity, modify AFP governance and increase the level of pensions. In the meantime, the industry is alert and in a defensive posture, reminding their great efforts educating adherents. The new chairman of the Association of AFPs has publicly recognised lags and misses in their communication and governing strategies. And some have realised lately that the self-employed – who are not obliged to contribute - were perhaps a key piece of the system, which got forgotten in the process.

7.2 Main Concern of Participants.

From the analysis presented in **Chapter 6**, we can grasp the main concern of participants: managing themselves in front of institutional complexity. This represents a challenging context, which has been triggered by the occurrence of a series of corporate governance scandals reflecting the diverse and counterpoised institutional logics. That is why their challenge is how to govern organizations in the context of institutional complexity.

7.2.1 Engaging with Complexity.

Each successive change in institutional settings experienced by Chile in its historical evolution has increased the level of disconcert of leading actors in front of the accompanying complexity, which has compelled some to question their ways, practices and even their values [PHI-1; ENT-1; BUI-1; GUI-1; BPO-1; REF-2; REG-2; PEN-1; MAN-1; LAW-1]. For instance, there is a telling anecdote occurred in early 70s reflecting the perplexity experimented by the main producers of sausages in the country, who did not know how to deal with a free pricing system at the moment of the sharp economic liberalization process after years of price fixing schemes. Fontaine (1988)

recounts their visit to the adviser of minister of finance to ask for their new list of fixed prices while presenting their own suggested prices. When told that they were free to set their own prices, after saying their goodbyes they came back, twice in the next 24 hours, each time with lower suggested prices!

Bucheli & Salvaj (2014) convey a similar feeling of complexity combined with incredulity and a sense of outrage, which affected the Chilean corporate world in 1991 with the appointment of Oscar Guillermo Garretón to the board of the Chilean Telecom. Garretón, previously one of the two “most wanted criminals” by the Pinochet Regime was accused of attempting to provoke the mutiny of Navy sailors. Garretón was elected with the votes of the Spanish state-owned enterprise (SOE) Telefónica and ended taking over as chairman and leading in 1993 a series of critical negotiations with regulatory agencies.

The current scenario is not less complex for players like the pension funds industry as explained above or the main fishing corporations. The second ones, are currently under threat of a harsher fishing law after public discovery and legal investigation that a member of parliament, who led the law-making process, was in the payroll of the main fisheries. In both cases the regulators, the legislators and the government officers are sharing the discredit of the corporate actors.

Therefore, the common thread among these cases are how to deal with the increasing complexity affecting both formal and informal rules, public expectations, and an array of stakeholders with conflicting interests –who distrust corporate actors-, as well as the lack of solid, credible, trustable state referents to rapport with [SOP-2].

7.2.2 Governing under Complexity.

The second aspect of the main concern is the challenging problem of *governing* in such complex circumstances. I herein explain the choice of the word *governing* rather than *governance*, in referring to an action verb, a process, that in words of Letza, Smallman, Sun & Kirkbride (2011, pp.: 171-172) represents:

“...an emergent pattern continuously generated from complex social interactions in historical and contextual specifications. It is an ongoing reality-constituting and reality maintaining activity in which all participants both inside and outside corporations actively participate in shaping and reshaping perceptions and priorities... governing activities in continuing processes, “here and now”, rather than ... abstracted description of ... end-state and outcome of activities, “there and then”. “Governing” directs our attention to what is emerging and happening in practice, what is being done and relating to people involved in specific governing processes, and what people are directly experiencing, ideally perceiving and socially communicating and interacting. It avoids ... abstracted theorising and modelling. ... governance suggests the past, whereas governing is firmly in the “here and now”, albeit with one eye on a multiplicity of uncertain futures”.

These ideas about governing are complemented by Fiss (2007), who writes about corporate governance and institutions articulating various ideas that go hand in hand with the notions of power, complexity, and institutional activism presented above. He suggests using the *Institutional Theory* lenses to move away from usual ideas of “complementarity and consistency” (p.401) around a unique institutional logic and hence to consider practices rich in “conflict and inconsistency” (ibid.); facets well represented in this research. Fiss (2007) also suggests exploring power relations implicit in governance models that are too often naturalised.

The ongoing basic social process used by participants to process the problem of institutional complexity can be called *minding the corporate governing gap*. And this process implies systematic, recursive and ongoing reflecting, questioning, acting, experiencing, perceiving, discoursing, organising, negotiating, interacting, settling and challenging while governing. It also involves dominant players, challengers, regulators, state agents, institutional entrepreneurs, pension funds, activist investors, communities, and stakeholders, among other actors. The issues include simultaneously achieving economic viability as business captains, social legitimacy as social leaders, corporate accountability, environmental sustainability, and professional responsibility as board members, and personal ethics as businesspersons.

Naturally, it should be clear that governing goes well beyond tactic corporate social responsibility (CSR) practices that are far from the governing level, and more often consigned under marketing or corporate communication areas (Ariztía & Melero, 2013). It also transcends the strategic management of stakeholders as proposed by Freeman (Freeman, 2010), which neglects the political and social impact of macro-social actors [REF-1] –who are critically relevant in the context of emerging countries. Such changes in socio-cultural logics derived from institutional change associated to turbulent emerging markets in instable socio-economic-political transitions are the main sources of complexity in Chile and are not seen as technical delegable themes by participants in this research, but as core governing concerns.

7.2.3 Incorporating Insights from Institutional Entrepreneurs.

The two associated aspects around the main concern, namely complexity and governing, are closely connected with the role played by *institutional entrepreneurs* (Hardy & Maguire, 2008), a concept explored in theoretical sampling (**Chapter 6**), which is driven by the action of multiple actors and/or processes challenging the established institutional arrangements; and a status quo regularly acting on behalf of dominant incumbents (Bourdieu, 2014). Thus, the issue of power and its exercise in practice is central to institutional entrepreneurship (Fligstein, 2001).

Hardy & Maguire (2008) refer institutional entrepreneurship to Lukes (1974)'s three dimensions of power: leveraging material resources; managing meaning; and manipulating “decision agendas, arenas, and participants to bring about change” (p.210). In the Chilean case we see the entrepreneurial movement acting as institutional entrepreneurs both challenging and collaborating with the establishment (to contest political reforms by President Bachelet government), using Lukes (1974)'s three kinds of power:

- Leveraging the material power of their major collectiveness [ENT-1; ENT-3];
- Reframing the meaning of who are the entrepreneurs, what they stand for (ENT-3), and what they do for themselves and for others; and
- Attempting to intervene in public policies.

This research therefore finds on the one hand, many incumbents still operating in a world apparently simple, due to their small number, homogeneity, highly concentrated industries, control

of the political forces through economic support of their campaigns, as part of the Chilean “elite pact” described by Mayol (2016).

In the other hand, the emerging institutional entrepreneurial movement is a reaction to the failures of both market and state derived from the institutional complexity. And, as predicted by Gustave Le Bon in his classic *The Crowd* (1895; 2008) social movements might also add to chaos.

Indeed, the action of challengers, a crowdfunding initiative for instance, augments the empowerment of social stakeholders thus sending back waves of uncertainty to incumbents, bankers in this case, threatening with disrupting the status quo. So, a non-linear and mutually recursive interrelation might relate complexity and institutional entrepreneurship.

Having clarified the main concerns and their link to institutional entrepreneurship; I turn now to the emerging theory.

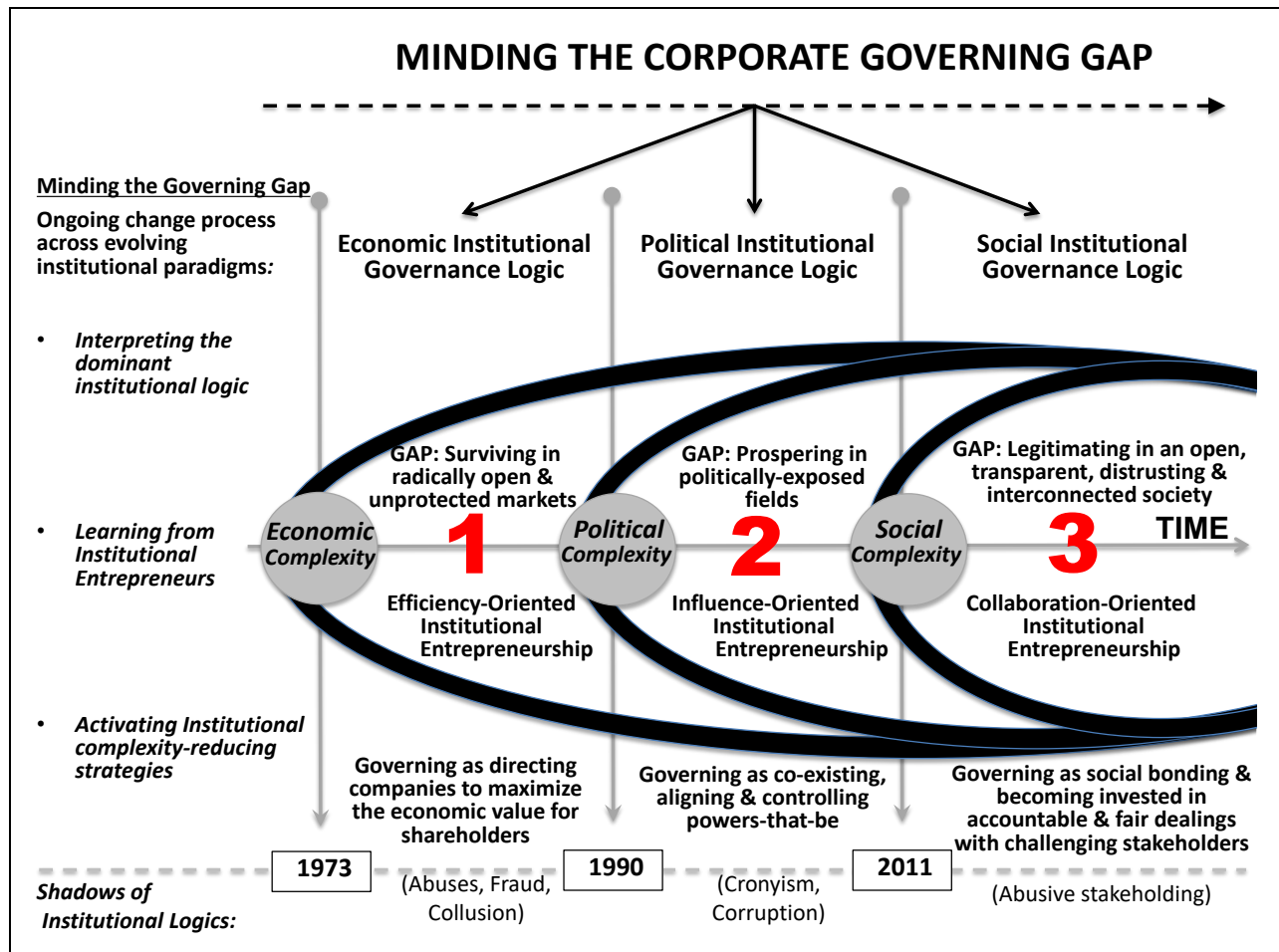
7.3 Emerging Theory: Minding the Governing Gap

Governing has become an exercise of *minding the corporate governing gap* maintained for decades. This has been propelling main actors to act through *distancing*, *deal-making*, and *defying*. Governing can thus be associated to the attempts of participants of answering the following questions in their professional practices:

1. What *governing* means in practice?
2. What is to be expected from the *governing* function?
3. What do institutions, the field and the environment expect of organizations?
4. What are the governance practices available? How to access these practices?
5. Who should be involved in governing?
6. What is desirable, acceptable and/or feasible?
7. How can an organization add or protect value in the new institutional framework?

The following **Figure 7** integrates the theory, the critical moments and the conceptual governing processes processing the problems faced by main actors active in the governance arena during a period of more than 40 years (For a detailed explanation of how codes converged into the ideas presented in Figure 7, see **APPENDIX 7**).

Figure 7 - Integrative Map



Stage 1: Economic Dominant Institutional Logic

As presented in **Figure 7** the institutional system evolved from a situated context characterized by a traditional patriarchal system (Caldwell & Montes, 2015 Fontaine, 1988) through the imposition of a pioneering and radical free market logic from early seventies (Caldwell & Montes, 2016; Fontaine, 1988; Fontaine, 2016 Personal Interview). The plausible origin of such far-reaching socio-economic change so early, without external referents to learn from, and in a context of a military regime (usually associated to more statist positions), could be attributed to the intense polarization of the Cold War period. Chile was deeply divided during the three years of socialist-communist government of President Salvador Allende, who counted with the explicit backup of the URSS and Cuba and was strongly opposed by the economic right wing supported by the CIA and the US administration (Opotow, 2015). The result of this was a military coup d'état. Thus, an economically liberal model as far as possible from central planning was not an unlikely outcome.

However, such development would not have been possible without the inspiration and education provided by the Chicago University to a group of Chilean economists, and the support and inspiration they found around the figure of Milton Friedman. Friedman's high profile visits to Chile, the widespread diffusion of his ideas through diverse channels, including letters to Augusto Pinochet, his columns published in the New York Times referred to Chile, the "Free to Choose" TV series broadcasted in the national channel, public speeches in a number of universities and publications in national academic journals, have been well established by several authors as well as by a number of participants in this research (GUI-1; SOP-2) as important support to the economic reforms imposed by the "Chicago Boys" helping them to prevail over overly critical insiders coming from the traditional right wing and the military world (Cárcamo-Huechante, 2007; Ossandón & Tironi, 2013; Fontaine, 1988. For a contrarian view see Caldwell & Montes, 2015.

A *rational* economic system (Scott, 1987) was established during the Pinochet Regime as a by-the-book free market model, which brought a new institutional paradigm, which I characterize as the Economic Institutional Logic, symbolised in figure 8.1 as an arrow falling from abroad given the external (Chicago) influences in its origins. The liberalization and marketization processes were experimented as a shock treatment by the weak Chilean economy (Fontaine, 1988) given the sharp reduction in tariffs from exorbitant levels to minimal ones almost overnight, the devaluation of the currency (Fontaine, 1988), and the brisk end of subsidies and the elimination of protectionism.

Therefore, the first governing challenge experienced by the main actors in charge of companies, that is, in the governance arena, was to attempt to overcome the difficulties presented by the economic situation and the need to survive in a brand new institutional logic, they did not understand well. First, actors needed to understand what was going on. Thus, soon main actors in governing functions realized they faced a competitive and managerial gap, given that their firms were not prepared to compete, due to their traditional reliance in the state, as well as the poor condition of Chilean firms after almost three years of economic chaos. Second, they needed role models from whom to learn. In that context, the Chicago boys and their followers acted as institutional entrepreneurs, first as state reformers, regulators and next as company leaders, as they were seen as professionals prepared to manage in a more modern, open and liberalised market. Third, governing meant leading companies to overcome their historical lack of competitiveness,

as well as the volatility of the economy, to be able to maximise profits, minimise costs, compete both internally and externally (BPO-2; SOP-2).

After a brisk economic shake out, both the corporate sector, and the country as a whole, began to learn the new ways, and slowly began to grow and prosper as seen through the rising living standards of the Chilean people. Overall, the common “currency” of this first period could be said to be economic value creation in a country traditionally starved of resources (Fontaine, 2016).

Chile on the one hand could be seen in this first period as a New Institutional Economics (North, 1990; Robinson & Acemoglu, 2012) textbook example of a virtuous cycle, deriving from sound institutional rules: *neoclassic* economic principles, encouraging incentives, clear property-rights, optimizing the economic model and assuring market efficiency (PHI-1; FIN-2), all *inclusive* measures contrary to *extractive* policies (Robinson & Acemoglu 2012).

On the other hand, the corporate downsides of this bonanza were frequent abuses of weak suppliers, sub-contracting and exploitation of SMEs by large corporations (Echeverría, 2013), similar to the situations reported in Japan by Iбата-Arens & Obayashi (2006). At the consumer level, the lack of regulation led to consumer abuses and frauds. And, at the competitive level, some actors set up long-lasting agreements to collude, profiting from the weak competition regulations, or some weakness in the ability (or unwillingness?) to enforce of these agencies (REG-2). Hence, some important institutional “*extractiveness*” left-overs were still present in mid of the “Chilean Miracle”.

Stage 2: Political Dominant Institutional Logic

In 1989 the Pinochet Regime lost a key election and it gave way to a renewed democratic period, starting in March 1990. This stage was characterised by an increase in institutional complexity, given the lack of understanding of democratic parameters by main actors in governance, after 17 years of an authoritarian, pro-market logic (BPO-2). This was especially stressed in regulated sectors – in particular, utilities - dependent on government agencies. Hence these areas were naturally the first ones to react.

The actors, who should be characterised as institutional entrepreneurs showing the way in this new environment characterised by political uncertainty, were mainly Spanish SOEs, such as Telefonica and Endesa, followed by other corporations, which began, acquiring majority stockholdings in

Chilean companies linked to infrastructure, pension funds, banking, utilities. These Spanish companies had a long history incorporating political actors in their boards and were the first to include centre-left-wing professionals and politicians among their local board members (Bucheli & Salvaj, 2014; BPO-1; ENT-1).

This incipient trend became an established way of dealing with the state, regulators and other factual powers-that-be [BPO-2]. Naturally, this drove to some degree of politicization of companies, a process which would later turn into illegal financing of political elections and direct support to sympathetic and later even of opposing candidates; the highest profile one by the former son-in-law of Pinochet controlling a privatized mining corporation. Therefore, Chile a country well-known by its low levels of corruption ranked at the same level of the US (Schwindt-Bayer & Tavits, 2016), began losing its traditional good practices and importing and developing its own brand of corporate governance deviance (PEN-2). Again, this global influence is represented in the figure as an arrow falling from the upside.

This complex institutional setting had a strong influence propelling some interesting responses from the *Country Club*. In fact, as explained earlier during the Pinochet Regime the traditional business class had made room to some of the previous institutional entrepreneurs (namely, the Chicago Boys), who had been turning into incumbents [ENT-1] through leading the privatisation process. [REG-2]. During this stage a new generation of centre-left-wing politicians [BPO-2] joined the Club.

This situation configured a *natural system* (Scott, 1987) of alignments. A consequence of which was the blurring of lines between right and left-wing actors, as they all had become at this stage part of the Chilean elite [REG-3].

The situation parallels closely the Resource Dependence Theory (Pfeffer, 2003; Davis & Cobb, 2010) and consistently the institutional “currency” of the period could be said to be power (or influence), and its acquisition and maintenance a main concern of actors.

Stage 3: Social Dominant Institutional Logic

The year of 2011 brought back the ethical protests of Chilean university students, and Camila Vallejos, their young Chilean leader was selected as *Time* “Person of the Year”, (Padgett, 2011). A massive movement against a gigantic hydroelectric dam in Patagonia also attracted a transversal

adhesion of Chileans (Scherman, Arriagada & Valenzuela, 2015). Since then, there has been an unceasing fall in the levels of public trust, fuelled by the corporate scandals [SOP-1, PEN-1]. And massive citizen protests have become the norm.

Thus, the institutional context has added a new source of complexity, by incorporating a social (or stakeholder) logic. Such evolution is neither innocent nor neutral, as it has been occurring amid a society increasingly empowered, deeply distrusting, widely interconnected and having the means to demand and attempt to realize their demands for transparency from elites. This has been occurring in all fields, whatever the attempts of hiding and justifying their moves by the new or old members of the governing elite (ENT-1;2;3; SOP-2; REF-2).

The problem of governing has then become the challenge of orchestrating equitable interrelations and transactions between corporate actors and stakeholders, in such a manner that actors need to demonstrate that they are invested in society's wellbeing and prosperity (SOP-2).

The institutional "currencies" of the period could be said to be trust and legitimacy.

This stage, just as the two previous ones, is not free of threats of corporate deviance. In this case the dangers are what could be called abusive *stakeholding*, in which organizational survival or prosperity might be put at risk by making environmental and social satisfaction goals the top priorities. An opportunistic sampling of an encounter with a colleague produced a vivid description of his frustration by the way his company had changed after an environmental scandal. He described how the new management adopted a systematic yielding attitude towards any demand from stakeholders to avoid potential problem –even unreasonable exigencies from local powers-that-be (CHA, 2016). This scenario corresponds to the conceptual case of communities killing organizations proposed by O'Mahony & Lakhani (2011), which could happen if the former is able to systematically siphon out resources from the latter without restraints.

However, these three stages should not be taken as independent, autonomous or self-contained, as they do not represent definitive end conditions, but they are progressive, interconnected and up to some point recursive. That is why they are not represented in figure 7.2 as closed circles, but as encompassing parabolic, open, forms. This is because these institutional logics are not alternative, a tacit argument in much of the literature (Friedland & Alford, 1991; Thornton, Ocasio, 1999 Thornton, Ocasio & Lounsbury, 2012). In this research these logics may be conceptualised as

representing different layers, which tend to superimpose ones on top of others. Thus, the underlying capes should not be interpreted as fully covered, overwhelmed, and subsumed by the following ones. This means that for instance, the patriarchal instincts prevailing previous early 70s are still present, latent and ready to pull invisible strings in critical moments (PEN-1), just as the Friedman-like *rational* mindset did not disappear with the *natural* alignment logic of corporate and political elites of the 90s and the first decade of the XXI century.

The previous reasoning brings home the *macro* basic social process going on during the period under study in the governance arena, as well as the process used by main actors to process the problem of governing. Main actors have been systematically *minding the corporate governing gap across institutional logics*. This has implied –and is implying- three key processes: getting *aware*, *accessing* and *activating* distinctive governing strategies (Aguilera et al., 2018) –ad hoc to prevailing institutional logics. This is the way boards are attempting to deal with the increasing complexity. Correspondingly, the role of governing has become more challenging, demanding, multidimensional, subject to stringent accountability and transparency requisites.

How do those main actors manage this challenge? The analysis of the core process, *minding the corporate governing gap across institutional logics*, permits conceptualising its three main sub-processes, namely:

1. Interpreting the new dominant institutional logic

A new institutional logic rarely is publicly announced and officially launched. On the contrary, it normally evolves gradually, before getting fully installed onto a society. Thus, interpreting a particular logic as an institutionally dominant one implies an insightful awareness of the ascent of such new institutional logic and a continuing comprehension of its underlying governing requirements. It also requires accessing appropriate solutions among the existing repertoire of corporate (and professional) tools, skills and/or routines available both within and outside the organization. Interestingly, as explained above, to remain effective the organization should achieve this without fully forgetting, relegating or displacing the previous institutional logic's demands, given that their imperatives might still be not only relevant in the short run, but remain crucial to succeed in the long run. This implies that the efficiency imperative from the first stage, and interrelations with powers-that-be from second stage cannot be fully removed from the corporate governance capabilities but should both leave space for trust-building governing

practices. The latter might include some contradictory elements vis-à-vis the pure paradigm of previous stages. Hence, a major dose of pragmatism and broader scope of the governing function is expected to become part of the awareness process.

Thus, interpreting the new dominant institutional logic has required the governance function in the three stages studied: awareness about the requirement of acquiring a profit maximising shared mindset and imposing related skills on the organization to be able to survive and prosper in front of open, free and highly contestable markets since early seventies. In the 90s, governing actors had to become aware of the needs of building bridges with the new political powers in an era of increasing –and updating- regulation, political interventions and importing global norms by successive governments. Since the beginning of the second decade of the century, awareness has been developing –although not at all fully developed at the time of this research. There still is an open gap in terms of the current requirement of hearing, dialoguing and incipiently learning from society (ENT-2; SOP-3).

Consequently, this sub-process can be considered as having potential fit, relevance and contributing to practice, but being still incomplete, without considering role models showing the way ahead. Hence, this takes us naturally to consider the second and complementary sub-process.

2. Learning from Institutional Entrepreneurs

The learning sub-process both follows and fuels the previous process of interpreting the institutional logic. It implies a process of methodical and/or casual observation and access to the actions taken by leading actors in the governance arena –a process facilitated by a relatively small and cohesive elite group (Robinson, 2015). This *accessibility* (Aguilera et al., 2018) permits learning from trials, successes and failures of first movers in the governance arena.

However, this process tends to be slow and conflictive as it might imply some (partial) degree of corporate forgetting and excruciating de-learning of skills acquired in previous stages or even painful abandonment of governing practices associated to past paradigms, which might not be longer favourable (REF-2; PEN-2). For instance, agreeing on production quotas with friendly competitors as did the cartel of chicken meat; discovered by *Fiscalía Nacional Económica* (anti-trust agency) (www.fne.gob.cl); which recommended and obtained from the court the dissolution of the industry association orchestrating the collusion.

Who those institutional entrepreneurs are and how are they spotted, are then relevant conceptual questions. As flows from previous analysis, the institutional entrepreneurs should be those actors, on the one hand, having had access to divergent institutional logics. And on the second hand, having the drive, resources and opportunities to take part on the attempt of implementing actions derived from the new institutional logic, whatever successful or not (Battilana et al., 2009).

How do they get such institutional access? This research in the situated context of an emerging market points towards educational activities in first world organizations, such as the ones the Chilean economists had in Chicago University or as modern Chilean entrepreneurs are having in Silicon Valley around Stanford University. But, it may also be originated through direct corporate experience, as the Spanish SOEs had during the democratic transition in Spain, which occurred fifteen years in advance of the Chilean one. Or it might arise from people's own entrepreneurial experiences, as happened to new entrepreneurs.

How transparent are their governing actions to the rest of the actors in the governance arena? This research shows that in the case of state-empowered actors, such as the Chicago Boys during the Pinochet Regime, it was not automatic or easy. However, definitively feasible using the power of public policies, authoritarian rule, repression, and fluid access to all sort of public levers, such as the public apparatus and state broadcasting means. However, the relevant aspect that made possible this institutional change was the systematic incorporation into private and public organizations of new actors educated within the new logic in the main universities. Thus, learning required incorporating the new mindset as well as bringing technical and social skills required to deal with the new institutional logic (Fligstein, 2001) –a process that began happening and became publicly noticeable in Chile (Fontaine, 1988).

In the case of the Spanish SOEs given that it was a structural change in the political mix of boards members it was visible, and noticeable for acute observers, although it could have been initially misinterpreted, or resisted for ideological reasons –as happened with the case of Garretón (Bucheli & Salvaj, 2014). This implies that it might have taken some time for actors to see through the phenomenon, but that eventually it tended to happen, propelling a drive to imitate it in similar settings. In the current third stage, perhaps given its newness or its more intangible characteristics -anchored around values, styles and purposes instead of public policies or structural changes-, and the leadership by a younger generation farther from the traditional *Country Club*, it might be less

visible and thus it could take more time to make impact (Mustakis, 2016). At the corporate level it might also be confused with tactic-level CSR, which might well blur the signals and create difficulties for other actors to actually read the new clues to learn how to govern themselves within the new institutional logic.

Therefore, institutional entrepreneurs provide *accessibility* (Aguilera et al., 2018) to innovative corporate governance practices fitting the new dominant institutional logic. However, being able to interpret, that is obtaining some awareness, and having accessibility are two necessary but not sufficient sub-processes of *minding the corporate governing gap*. The previous could well remain passive reflectivity, but not conducive to action, thus we need to add a third one.

3. Activating Institutional Complexity-Reducing Strategies

This sub-process, contributes the action-oriented aspect of *minding the governing gap*. Given that as explained above the introduction of a new institutional logic is usually not evident, and takes some time to become dominant, hence coexisting with previous dominant logics. Thus, there is an increase in complexity (GUI-2), therefore managing institutional complexity becomes one of the chief governing challenges (SOP-3).

This *activation* process is compounded and informed by recurrent *awareness* and *accessibility* processes analysed above.

The institutional complexity during the different stages has different sources. First, it arises from the liberalization of the economy and the elimination of most sources of protectionism and the promotion of free competition. The advent of democracy is the next major source of institutional complexity for organizations used to operate in an apparently politically neutral environment. The third cause of complexity is the awakening of a distrusting, empowered civil society unprepared to accept traditional corporate governance practices, and enraged by systematic abuses, frauds, and collusions, as well as upset by the discovery of a parallel world of political cronyism and business-politicians' corrupt interactions (BPO-2; SOP-3).

Each one of these stages had an accompanying gap to close. The first stage had an efficiency gap that required both focusing and activating the governing function on maximizing profits, developing competitive skills to survive and grow, although occasionally it derived into market abuses, exploitation of SMEs, and illegal collusions. The second stage presented the challenge of

maintaining prosperity in a politically exposed context. Consequently, it brought a mutual adjustment between business and political actors oriented to co-exist, align and, in the background, controlling external powers-that-be, through donations, contributions, gifts and shadow salaries for related state agents, deriving in corruption and cronyism. The third stage is derived from the downside of the two previous stages. Thus, the gap organizations need to close implies attempting to recover their legitimacy in front of an open, transparent, distrusting and interconnected society (BUI-1;2; GUI-2). Governing would mean in this context, social bonding and becoming socially invested in a fairer society, being accountable and dealing successfully with challenging stakeholders.

Empirically, the strategies used by actors to handle institutional complexity in each period are diverse and multifaceted (see Theoretical Sampling in Chapter 6 for current activating strategies). The market institutional logic was discernible by the incorporation of new talent at both the board and organizational levels [MAN-1;2; REG-2]. The power institutional logic drove into an influence-building process through the inclusion of politicians at board level. And the institutional logic centred around (dis) trust is challenging organizations to attempt to collaborate with society at large; a process which, according with participants are making boards question their interactions with their stakeholders (GUI-2; MAN-1,2; SOP-2]. Therefore, some call for an “creative introspection” [SOP-2] at the governing level to try to find new answers to current challenges.

7.4 Credibility & Evaluation of the Theory

Despite not committing to the whole set of GT and AR, these research methodologies provide some tenets to help evaluating the emerging theory.

7.4.1 Evaluation from the GT Perspective

Glaser (1978) proposes that the criteria for evaluating how credible a grounded theory is “fit... work ... relevance ... [and] modifiability” (pp. 4-5).

1. The conceptual categories of the emerging theory should *fit* the data: the categories theorized need to match the behaviours conceptualized (Loy, 2010).
2. A theory should *work* by being able to explicate what has happened, predict what is going to happen, and decode what is happening in the area researched.

3. The theory should have *relevance* to the ongoing action of the area “because it allows core problems and [basic social] processes to emerge” (p.5).
4. The theory is alive in the sense that it can be easily *modifiable* in case further ideas may appear out of new data Holton (2007).

In my case I started with an AR approach and I borrowed parts of the GT “package” to enrich it and extract an emerging theory. This is however, what most researchers do (Ellwood, 2017, personal communication), arguably due to the demanding tenets of Classic GT. However, I have made all the possible to stay close to the data and open to emerging concepts, and I have applied the constant comparison, memos, and theoretical sampling procedures. Consequently, the emergent theory should be evaluated in terms of its relevance to main actors in the governance arena.

7.4.2 Evaluation from the Perspective of Participants

In this research the purpose was “developing with the contributions of the participants a “theory of practice” that might be useful to understand what is going on in the field, be relevant for their practical endeavours, fit their lived realities and work as source of reflection and inspiration for action to inform, actualise and contribute to the eventual remodelling of their actions in practice, if appropriate”. It was built upon participation. It aimed overall at contributing practical knowledge. The research methods were as transparent as possible, given the nature of the research and the ethical requests of the University of Liverpool, and it attempted to preserve the voices of the participants. The underlying goal was to act as a sounding board to real actors and change agents, that is, influential actors in the governance arena, informed by the outcome of this research. I tackle in a later section the requested self-critique as researcher. And I analyse next the sense-making results from the viewpoint of participants to evaluate the impact beyond the situated context,

Next, I report the interactions developed with the group of 12 participants in the last round of interviews.

Table 14 - Evaluating Fit, Work & Relevance

	AWARENESS STRATEGIES: <ul style="list-style-type: none"> • Questioning • Interpreting the dominant institutional logic • Recognizing past pitfalls 	ACCESSIBILITY STRATEGIES: <ul style="list-style-type: none"> • Searching role models • Learning from Institutional Entrepreneurs • Processing experiences 	ACTIVATING STRATEGIES: <ul style="list-style-type: none"> • Institutional complexity-reducing strategies • Reflexion-in-action • Purposeful movements
PHI-3	<p><i>“Now we need to observe critically: Managers from your same school, you feel that if he studied in your same university, that you already know him, you assume he has the same values, you drop your guard, but it is not true...”</i></p>	<p><i>“... [there is a group of] very hard-working, studious young people, who are very critical, no one comes from Tabancura [an elite school] [there are] various social movements, study groups and young opinion leaders [to whom we should be listening].”</i></p> <p><i>“We should not look like we are accumulating economic, moral and political power.”</i></p>	<p><i>“[after a scandal] now we are taking very good decisions and we have renewed the full team.</i></p> <p><i>“To open major instances of reflection and forming new board members... a new [family] member entered into the board...”</i></p> <p><i>“We should not abandon the public debate ... maintain the interest for public policies...”</i></p>
SOP-3	<p><i>“Politics stopped being territorial and about social classes, and has become [a matter of] networks, interests, ... the diversification of a very heterogeneous society in terms of interests... and politics is always the articulation of interests ... and to be able to group them through networks, is something that is much more difficult ...”</i></p>	<p><i>“...don't be blinded by a hyper-ideological vision of the current situation... In other situations, while the big industrialists had the same [negative] discourse, other entrepreneurs were buying companies, because they understood that other options were open, and that different escapes might exist ... or perhaps they had better information”</i></p>	<p><i>““You need to introduce risks and uncertainty, degrees of variance over the domain of the future, ... To invest in Brazil: you listed risks, costs and synergies...and perhaps socio-economic risks ... [but] you did not know how to put the thermometer... Brazil is a hell of a country: its trajectory is unpredictable. This questions McKinsey models, they were not able to foresee this dimension.</i></p>
REG-3	<p><i>“There have been cultural changes in the business community, this is part of the evolution of the model, there is a convergence of patterns ... Formerly white-collar crimes did not look so bad”</i></p>	<p><i>“Chile is a small elephant, so it cannot go far from the herd ... the international organizations, ...so Chile dictates laws, and international guidelines are being implemented [following] OECD, Basel rules for banks, insurance, etc.”</i></p>	<p><i>“Boards have changed in the last few years, a strong change has been required to protect the firm, and its values, its identity, to have long term viability, to avoid a decline in its social value”</i></p> <p><i>“There are changes in practices, there are punishments, and values are being inculcated...”</i></p> <p><i>“...a collective monitoring is permitted”</i></p>
FIN-3	<p><i>“Competition has a power, the power of disempowering, to take away the</i></p>	<p><i>“... you need good people, all the time. For instance, Felipe Irazazaval in FNE [Anti-Trust Agency], he was chosen by [right-wing President]</i></p>	<p><i>“in boards you must be more careful with executives, to be two or three degrees more cautious”</i></p>

	<p><i>[excessive] power that goes beyond your capabilities”</i></p> <p><i>“Institutional frameworks have infinite value... good rules ... Chile made very good ones. ...[but] they have to be reviewed all the time...”</i></p>	<p><i>Piñera despite his [left-wing] political ideas, ... [select leaders] on merit ... we need good leaders”</i></p> <p><i>“corporate governance needs to be cared for and this is required to work well. But to work properly, it needs to be done well; persons do the change. A group of good guys is capable of changing people”</i></p> <p><i>“those who have the capacity of creating, they push, they can smell each other, they form teams, they introduce tremendous changes”</i></p>	<p><i>“you have to take more care, be diligent with [your] prestige and name, in front of situations that might not appear elegant...to be more attentive in facing conflicts and exposure, ... and conversations with competitors ... in cocktails I have felt stupid, ...you cannot be in a picture, You must be careful with this intangible value. Today’s general standard demands very strict behaviour patterns in all these matters, anything which smacks of collusion, bribery and corruption ...you have to be and to look. Be careful.”</i></p>
LAW-3	<p><i>“[the] board does not manage the company. We are fed by external and internal [actors], ...some doubts are not solved, you may not have the time to find out, or get it late. Do I need to know or not? You cannot bear the doubt. When the river sounds something is going on”</i></p> <p><i>“is the firm updated or left behind [in] political, social or technological changes ...”</i></p> <p><i>“[ask] am I right? Permanently give your opinion, look around. ... the world is not black and white, ... there are many greys. How to have the time? Explain me why you think...listen and take the time to hear. There is no reflection in boards, you [just] believe one or the other...”</i></p>	<p><i>“pension funds need to open up to [new] diverse directors...historians, academics, it is a more complex world. Pension funds just involve financial guys. [that is] a poor perspective...”</i></p> <p><i>“they [foreign multinational officers) need to understand how is Chile, the transcendence of boards, ... they need to learn the concept of peership.... You need to feel that you are a peer, ... not commanded, but [act as] a counsellor”</i></p>	<p><i>“boards need to change their rhythm, listen to directors, respect, satisfy their doubts. They may change their perspectives.”</i></p> <p><i>“you need to find a form of exempting your responsibility... to make clear to the public opinion that you were informed, that you believed, that you were wrong, delimit carefully, be discreet... take risks... but with care ...”</i></p> <p><i>“I am willing to cooperate, to be transparent, saying things the day before, pre-board meeting, check if postures are very different. Am I wrong? Possibility of mutual convincing. Don’t hit the ball in the board, no disloyalty in the board, ... ask...perhaps you have received erroneous information ...”</i></p>
GUI-3	<p><i>“there is a group of people who understands, who tries to collaborate to fix all the mistakes we have made”</i></p> <p><i>“it is not stigmatizing, we all did it, but this changed. There is an introspection”</i></p> <p><i>“fair price and profit are matters that have a frame of reference, over the limit [they] are unbounded greed“</i></p>	<p><i>“There is a very interesting movement. It is not taking distance, but the other way around, it is being more collaborative, to work for a change ... without rupture ... counsellors who are around 50 year’ old, who sit on the board of many companies, who are well disposed to change towards a culture of respect ... to relate to the people ... we are</i></p>	<p><i>“we are working with a group of corporate governance, ... we want to hold workshops, to preach, to create consciousness ... none of us dares to throw the first stone, we all did the same stupid things... we are working ...to share good practices, to change what needs to be changed ... there is a good movement of peoplethe ethics committee is great, we are trying to copy the good things ... we want to bring an</i></p>

		<i>making alliances with NGOs and others ...”</i>	<i>[international] guru... there is a good ambience”</i>
MAN-3	<p><i>“... many sectors need to be heard, they were not taken into consideration ... stakeholders who are the raison d’être of business were lost from view”</i></p> <p><i>“Social legitimacy is lost in any scandal... immediately [seen as] guilty...laws are not enough ...social capital is easily lost”</i></p> <p><i>“We need to regulate ourselves otherwise regulation will affect the business environment...and might inhibit entrepreneurship”</i></p> <p><i>“If people don’t feel that you are betting on society they ask you to settle your bill”</i></p>	<p><i>“A few members of the new generation of industrialists are making the change, but it is slow and will take time and will also have consequences for Chile.”</i></p> <p><i>“New [upstart] entrepreneurs are very valuable, they are thinking out-of-the-box, and they have no problem [to speak freely] because they are their own bosses... they have social capital... people identify with them”</i></p> <p><i>“These changes are common in the world and are exacerbated by social networks”</i></p>	<p><i>“You need to create social capital, ...measure that people is happy... to create welfare...efficient forms of combining capital and human resources”</i></p> <p><i>“We want to build a different way to relate to our stakeholders” ... be proactive, to anticipate ...”</i></p> <p><i>“All society [needs] to be included: the Church, the Army, everyone... in dialogue. Start with our own people, show interest, solve their problems, be in the ground ... get involved and [try] to understand the social role of business”</i></p>
BPO-3	<p><i>“...with collusion, frauds and others, ... the justification of being an industrialist collapsed. It is now obsolete. Maximizing today has got different requirements. Before these things went unnoticed, but not anymore. It was an amoral logic... We must see how to change it; the way of being an entrepreneur in Chile has changed. We cannot continue with the logic of 20-or-more years ago...”</i></p> <p><i>“...the change in paradigm, and in the cultural logic made sense...not only to do things well, but different in firms of today.</i></p> <p><i>“...it is evident that [old] articles of faith are not so today: ‘All that is free market is good and anti-market is bad’. The trend to collusion and cartels of the Chilean economy is a f*** one for a market economy. [Being a small country] we require more regulation than the US”</i></p>	<p><i>“I am an enthusiast of ASECH, ... they have a challenging reaction in before the state”</i></p> <p><i>“...critical vision of business of today, ASECH is going out of the firm into the street. What they do not do for business no one else will do it”</i></p>	<p><i>“Ethics is part of being an industrialist today. And the politics of being an entrepreneur [implies] a commitment to the environment, workers, suppliers and clients. There are politics [not only] products and services”</i></p> <p><i>“strategies to protect reputation... culture, communicating with the people... be very present as board leader, hands on. Not to play the role of controller but be close to the people. That the people who works with you feel that they cannot propose weird things, because they will upset you... There is a very special role for directors: to unify and make people feel enthusiasm with a common goal...”</i></p>
ENT	<i>“... we are in an age of networked intelligence, of openness, transparency, sharing and empowerment”</i>	<i>“...the regulator does not give room to new entrants, what a hassle to deal with that! But if I make the regulator see the implications for his own job. If everyone was connected, the banking regulator would know in one second</i>	<p><i>“.... we orchestrate parameters, there is so much value available after so much time intermediated.”</i></p> <p><i>“We are permitting self-governance. What is the minimal level of intervention</i></p>

		<p><i>[what is going on], if creditors, money operators, etc. were connected ... [it could say] please tell me....”</i></p> <p><i>“we want to have entrepreneurs in every public-private forum of analysis and discussion ... to have the entrepreneurial perspective present”</i></p> <p><i>“we are asking the authority to become a promoter of competition, a guarantee of fair play, change the paradigm of regulator: mission of opening up industries to new entrants, to attribute value to them and commit with them”</i></p> <p><i>“Total transparency, this is our advantage, to involve everyone, and each one selects the information they want to use”</i></p>	<p><i>to make the system work? We regulate the field, not the moves, [it is] a collaborative approach”</i></p> <p><i>“network without a unique centre, with more energy... we manage the network: maximum amount of information, utility, and trustable, a trust that feeds back itself. I depurate the information and I give it back to you ... and I inform those who comply”</i></p>
BUI-3	<p><i>“Country Club has been getting diluted and losing collaboration and mutual commitment, by itself, there are new entrepreneurs, there are many NN [new people, not known] investing...”</i></p> <p><i>“[so-called] ‘natural’ relations between business and politics cannot continue going unnoticed. There is suspicion of hidden things”</i></p> <p><i>“we industrialists, we were tremendously homogeneous in our basic ideas, in our free-market vision and nobody else represented these ideas. As political parties were not channels of expression [during the Pinochet Regime] ... we played the role of Country Club, but with social mobility”</i></p> <p><i>““loss of power and prestige of the Country Club as social unified actor. Today, we can just aspire to have a legitimate voice “</i></p>	<p><i>“Regulation has been learning from new phenomena...noticing aspects, which were not seen earlier. There are new regulators, new industries...”</i></p> <p><i>“[actors] with vision are exercising leadership in a more personal way... there has been a generational change that has brought a new breed of entrepreneurs, who are each one working on their own”</i></p> <p><i>“... [new start-ups] have been challenging the financial establishment, with technology, new products, new marketing, that obliges the incumbents to change ... in our industry we are being obliged to be current, and that is a positive phenomenon for the country, the society”</i></p> <p><i>“the entrepreneurs are indignados but who did not stop to criticize but rather they are rolling up their sleeves without guarantee of success”</i></p>	<p><i>“industrialists [say] to the government: do whatever you like, but you will still need us”</i></p> <p><i>“some have dropped their heads: I better live off my rents, and so do not invest”</i></p> <p><i>“it’s going to be difficult for firms to live in a stable environment. Before I adapted to a new framework, but today, a stable frame doesn’t exist, but it is changing constantly. That is why managers need to learn to live with these innovations that affect your activity, new competitors, new start-ups, instability. You affront people that you don’t know. As a member of the Country Club, I knew 90% of the members, now it’s [just] 5%...”</i></p>

		<i>"I see that [entrepreneurs] getting organized, creating an organization, a form of doing things, ... they are achieving things"</i>	
PEN-3	<i>"Perception of attempts by the government to exacerbate a crisis and weaken and destroy the private pension funds system ... due that [new] authorities are highly marked by ideology"</i>	<i>"the regulator [innovated] asking us [a privately held financial service] to apply good practices of public companies in the board, adding two independent directors and a committee of external directors..."</i>	<i>"we are questioning the [regulatory] methodologies applied in Chile"</i> <i>"we are asking the regulator to clarify its position ... [ask the regulator] why are there press leaks? What is their idea? What are they trying to do...?"</i>

These testimonies provide a clear perspective on the insight process, the change agents acting as institutional entrepreneurs, and the consistent actions that are being adopted by main actors in the Chilean governance arena. And therefore, it flows how the paradigm is been slowly updated.

7.4.3 Evaluation from the Perspective of AL Research

I argue here that this research was under the *Action Learning Research* tenets (Rigg & Coglán (2016) by using Revans's *Alpha, Beta* and *Gamma Systems* as summarised by Rigg (2014; 2015)

- *Alpha System*: what is the actual reality of my current situation?

The first round of interviews (see Appendix 2 for the three rounds) had as central topic taking stock of the historic corporate scandals from the point of view of the participants through questions oriented to remind them of the antecedents deriving into their current situation. Thus, the questions invited to reflect critically and understand their situation in a social, economic and political context. Examples of reflections are the following statements of LAW:

- "...feelings of rage, disappointment of some friends, deception, frustration of a system, uneasiness because many people might think that I am part of the same group...hard feelings about individuals, which I thought were right persons ... today we are transparent.... we have learnt on the hard way, seeing our friends falling down. I believe that in matter of governance an era died. A phase in which there was much abuse and easy money, things that cannot be done again. We are nowadays in a new page. Thanks to God." [LAW-1].

Thus, the questioning implied a contemplation process for the participants consistent with critical practice by conveying a reflecting process, that is "thinking about" their own situation

and problematizing the usual professional practices of their milieu as problems with real and significant consequence for their peers and themselves.

- *Beta System*: what should I learn more about? What should I consider and examine more? What should be my approach to analyse the situation?

The second round of interviews was designed based on the experience, analysis and reflection about the first round of interviews. The questions were consistent with the purpose of helping participants to reflect deeper, to imagining new options and new ways of learning and acting. Examples of this are the following statements by [-2]:

- “We have a major communication deficit in my company. We are wondering how to communicate better. How to get closer to the people? Young folks are willing to get closer to the people. We need to dare to ask questions between different generations... we have played with our prestige as group in the past.... As if we have earned and owned our prestige...we have fallen behind... our new leaders need to be younger, brave and daring.... Do not lose the bond with people. Avoid disqualifying people who think differently. To reach out for them...we need to be much more involved. If we are the largest company investing in the area, how cannot we do it along with the community? How not to think everything from the first day? How to impact positively the community?” [PHI-2]

In this second round we see the participants *voicing*, that is “talking about” (Rigg, 2014; 2015) evaluating the potential introduction of alternative leaders, overall in an exploring mode of different conducts, approximations and approaches, as well as suggesting trials, experiments, and reviewing new possibilities. Again, this takes a critical stance towards past behaviours and previous front-runners.

- *Gamma System*: what am I discovering about how to act in the current situation? How finding out more about the situation might alter the way I act and how I learn?

The third round was again feed-forwarded by the second round and it took a more dynamic perspective by reviewing current strategies, outcomes and potential risks and ongoing actions. Example of such are the following statements:

- “We are experimenting social complexity. So, we are now talking with our clients to explain them that they need to train their people, set new values, a new culture, new

contracts, empower compliance officers, establish new policies, and engage a new kind of executives. This is key to do international business nowadays... These conversations with you have helped me to formalise what is in my mind... to raise new concerns, doubts...for instance, I have been trying to create a new think tank, a centre to strengthen public social debate...” [REG-3]

This final round finds the participants “enacting”, that is putting into practice, both for them and for others, sharing with them their new insights and learning. This reflection in action takes again a critical perspective (Callahan, Rigg & Sambrook, 2015).

Therefore, the three rounds imply the incorporation of new meaning and attaching to it a critical outlook, becoming on time a critical action. As proposed by Rigg and Trehan (2004) and Pedler (2005), the process seems to have helped the participants to see in context the dominant social situation in order to appreciate how it could be altered and transformed to improve it. Thus, we can esteem that it has not only been an exercise of Action Learning Research, but Critical Action Learning Research.

Concluding our analysis if we evaluate the AL in terms of Pedler, Burgoyne & Brook (2005)’s distinctions we can argue that it has been an exercise of *Critical Auto-Action Learning* holding the 12 participants responsible for understanding their own interpersonal and institutional practices, creating and evaluating options and exploring eventual changes (Pedler et al., 2005). This implied reviewing their own past, present and future actions as a repeated exercise, problematizing their behaviours and those of their peers, helping them recognise the importance of the problem, for them, their organizations, and society-at-large, facilitating them to recognizing progress, identifying *comrades-in-adversity* aiming at seeing progress on the problem, and foreseeing difficulties and opposition, and overall helping them -often just by being present, attentive and close- to maintaining in view the benefit (as well as the risks) of (not) reducing or (not) solving the problem of governing according with the institutional logics coming from age. Thus, the recognition of power relations and structures associated to critical theories has been present in the exercise. Besides the interactions made them review and explore the demands of “responsible citizenship and personally and socially rewarding lives and careers” (ibid, p.59). In this context, this researcher played permanently the role of facilitator, and in three of the cases as mentor or coach of the participants in front of their challenges [PEN; PHI; FIN].

7.5 Discussion

7.5.1 Governing & Institutional Logics

As explained above the three sub-processes associated to *minding the corporate governing gap* are transversal to the three stages, and bring diverse definitions of what is governing, what is its purpose and scope of action, questions intimately linked to institutional logics.

According with Westphal & Zajac (2013) Institutional Theory permits broadening the perspective of an emerging Behavioural Theory of Corporate Governance by taking a macro viewpoint, which allows viewing theories of corporate governance, such as agency or stakeholder theories as “institutional logics” (Friedland & Alford, 1991) containing culturally consistent “social prescriptions” (Greenwood & Suddaby, 2006, p. 28) and “organizing principles that furnish guidelines to actors as to how to behave” (Rao, Monin, & Durand, 2003, p. 797). This is very useful in conceptualising the three stages analysed above, especially in terms of studying the evolution of the institutional logics of governance as a societal-level transformation, including consequent re-organizations aligned with such logic –an attempt rarely accomplished in empirical research according with several relevant investigators (Westphal & Zajac, 2013; Friedland & Alford, 1991; Scott & Davis, 2007).

Minding the corporate governing gap as a basic social process allows conceptualising the determinants of top-down institutional change. These important sources of institutional evolution have been rarely researched and normally left to speculation in literature. It also permits considering bottom-up receptivity of certain organizations to new logics of governance: an important aspect, given its relevance as possible precursors of institutional change at the level of society-at-large (Westphal & Zajac, 2013).

The *economic* institutional logic implies conceptualising governing as directing an organization to maximize its value for its shareholders. This in the context of a very simplified and quite stylized *rational system* (Scott & Davis, 2007), following the Friedman principles and echoing on the one hand, a fiduciary definition (Chait, Ryan & Taylor, 2005) associated to assuring capital providers the protection of their investments. Thus, the primary focus of the board around the goal of generating an appropriate return on the funds invested (Aguilera et al., 2018 Shleifer & Vishny, 1997). The logic also implies a strategic perspective in terms of *governing* as planning, monitoring

and achieving corporate goals (Chait, Ryan & Taylor, 2005). Naturally, during most of the period in which this market *logic* ruled an external perspective of corporate governance -beyond tactical relationships with clients, suppliers and shareholders- was not an issue, partially explained by social forces contained by an authoritarian regime and a controlled press. So, governing would tend to be systematically confused with managing.

The *political* institutional *logic* implies conceptualising *governing* as a *natural system* (Scott & Davis, 2007) in line with the *Resource Dependence Theory* (Pfeffer, 2003). That is *governing* an organization to ensure its survival and autonomy, under the motto: “power trumps profits” (Davis & Cobb, 2010), where power, not just the previous *logics* of rationality and efficiency goal is key in understanding organizational behaviours. This matches the idea of *governing* relations with extra-organizational exchange partners so as to reduce uncertainty and external dependence (Davis & Cobb, 2010). The *Resource Dependence Theory* goes as far as proposing that “... an organization can manage uncertainty by inviting a representative of the source of constraint onto its governing board, thus trading sovereignty for support ... [thus] ...corporations reliant on government contracts might invite former senators and cabinet members to join the board to gain contacts and signal legitimacy. The expectation is that having a representative serving on the board provides the source of constraint with a vested interest in the dependent organization’s survival” (Davis & Cobb, 2010 pp. 7-8). This is consistent with Hillman (2005)’s finding that highly regulated corporations have more ex-politicians as board members than companies in less-regulated sectors.

Given the dearth of investigations, the empirical evidence in Chile is small but significant (Bucheli & Salvaj, 2014), and coincides with the observations of participants in this research, and the simple observation of the composition of boards of utility companies, transportation, banking, pension funds and telecoms corporations, among others. The *interlocking* directors and *elite* studies in Spain by Baena (2002) and Rubio & Garrúes (2015), among others, affirm the hypothesised awareness and accessibility of Spanish SOEs to corporate governance practices involving politicians, for most of the XX Century. In general, the rationale is that former politicians work as mediums of valuable information and provide access to critical political resources, which are beneficial to companies operating in regulated, politicised and government-dependent environments.

Thus, *governing* could be understood in this stage as co-existing, aligning and attempting to control the powers-that-be, by co-opting them as members of the elite *Country Club*.

The *social* institutional *logic* implies a notion of governing within an *open system* (Scott & Davis, 2007), closer to the more recent works of Foucault (2000, 2011; Ramos, 2013; Dean, 2010), who questions the continued association of *governance* with the state. Foucault *précise*s that the role of *regulating conducts*, which used to be performed by the state was further developed when they were transferred to private enterprises, educational, health and religious organizations. Thus, drawing from Foucault (2000) I relate *governing* to the set of procedures, forms of analysis, calculations, dispositive, and social-scientific knowledge and related technologies, which legitimise from a distance the conduct of individuals congregated in human groups, with the purpose of regulating increasingly complex organizational, socio-economic and environmental processes.

In the case of Chile, governing organizations in a context of deep distrust implies; establishing social bonds; becoming invested in society welfare; being socially accountable; and maintaining fair dealings with challenging stakeholders, all while targeting both economic and social-value creation.

Comparing the emerging theory with Thornton, Ocasio & Lounsbury (2012) is of interest in so far as they distinguish between *transformational* and *developmental change* in institutional logics. They offer a taxonomy of forms of change and their definitions, within these two categories. In this research we observe elements of both kind of processes. On the one hand, it forms part of a *transformational change*, in the sense that a traditional *logic* is being partially replaced by a new one. However, rather than full *replacement*, it is more a *blending* of two or more previous *logics* with a new one. On the other hand, it is also a *developmental change*, as there are elements of *assimilation*, taken as the incorporation of external (*global influence*) dimensions. Perhaps this is due to the relatively small size of Chile's economy when combined with its notable openness to the outside world. However, there is also an *elaboration* reinforcing the process, and an *expansion* in the scope of the new *logic*. Therefore, as the figure shows, it is an add-on, *layering* process, in which a traditional *logic* is enriched, complemented and "completed" by the new *logics*. Naturally, the outcome is a major increase in the complexity associated with *governing*. Indeed, the *governing* process implies a continual minding of the institutional gaps, that recur in the historical and

contextual process. A process mostly propelled by the comprehension and assimilation of the challenges associated with the new institutional logic, as well as by the example and influence of institutional entrepreneurs, in addition to the concrete actions attempting to reduce the uncertainty in front of the institutional evolution and its progressive complexity.

7.5.2 Governing in Practice

Therefore, I argue that *governing* in any contemporary organization extends to considering, evaluating, and taking a position vis-à-vis the diverse institutional *logics* available at a global, national, field, community, professional and organizational level, in terms of their implied governance practices.

As seen from the participants' experience, an awareness of *corporate governance* is assumed explicitly and implicitly to derive automatically from taking a position in a board. However, of late it has tended to be more of a conscious and ongoing action, given the increasing condition of *open systems* surrounding an organization and the introduction of factors of heightened complexity.

1. *Governing in practice* increasingly implies contemplating the interactions between established incumbents, challenging newcomers and associated stakeholders as social exchanges. This gives rise to alternative *corporate governance* practices. The rationale is that an increase in the level of interactions between diverse factions - especially those including institutional entrepreneurs - acts as a source of information and diffusion about a variety of *corporate governance* practices, allowing organizations to access such diversity directly and so expanding installed *governing* capabilities [SOP-2].
2. *Governing in practice* increasingly implies activating corporate policies and practices aligned with regulation, given stricter enforcement of (newly) established rules. In the Chilean case, it means leaving behind past expectations of *exceptionality* [PEN-1]. Transition from a *natural* system into an *open* system implies foreclosing on calculated alignments between public and private parties, which hitherto had allowed special treatment / consideration by state agencies given the opaqueness (lack of transparency) [ENT-2]. Therefore, “improving” *corporate governance* practices are expected to reduce their corporate deviance and increase effective

compliance while, predictably, many actors may try to maintain their strategic decoupling (Oliver, 1991).

3. *Governing in practice* implies attention to the increased degree of transparency of *corporate governance* practices. This implies more consideration of what should be done, in terms of feasibility, acceptability and desirability from an organizational point-of-view (Alasuutari & Qadir, 2014). Therefore, organizations should tend to revise the visibility of their *corporate governance* practices and – over time - move away from their historical *zone of conformity* (Aguilera et al., 2018 GUI-1; 3, LAW-1).
4. *Governing in practice* implies responding to the demands for social accountability. That means becoming increasingly aware of expectations, criticisms, and unsatisfied requests from the governing institutions, the field, and organizational surroundings. Naturally, that implies rational analysis by the board and senior management, but increasingly, such evaluation will tend to include a sense of *corporate duty*, and a revision of their alignment with the corporate values, and the implications derived from the predominant institutional *logics* [REG-2; MAN-2; GUI-1].
5. *Governing in practice* brings both the challenge and the opportunity of developing an exercise of *reflection* [SOP-2] to incorporate both extended social and private value, all of which will tend to increase its fitness with society. This added value is intimately related to the dominant institutional *logics* and the capacity of introspection, and effectively echoing the results throughout the organization.
6. *Governing in practice* implies transcending; challenging and at some point - possibly - abandoning the organizational alignment with the dominant institutional *logic* [GUI-2]. The fit with the institutional *logic* is likely to be both a source of value creation and *organizational obsolescence* at some point in time. Therefore, organizations will need to review their alignment if they are going to survive and prosper. Thus, alternative emergent institutional *logics* should work as permanent sources of *corporate governance* renewal.

CHAPTER 8 - CONCLUSIONS

In this research I have investigated how the logic of institutional governance has evolved in Chile during a period of 44 years using mixed methods derived partially from *Grounded Theory* and *Action Research* methodologies.

A basic social process of *minding the corporate governing gap* across institutional paradigms has emerged. Three sub-processes compound this core variable: *Interpreting the dominant institutional logic*; *Learning from Institutional Entrepreneurs*; and *Activating Institutional uncertainty-reducing strategies*. The first one corresponds to a process of *awareness* of alternative institutional logic and its derived corporate governance practices. The second is a process of *accessibility* to specific corporate governance practices through observation, imitation and/or learning from institutional entrepreneurs. The last one relates to the process of putting in practice, that is *activating* the new corporate governance practices (Aguilera et al., 2018).

The three sequential institutional logics identified can each be related to extant literature. First, a predominant **economics** logic that matches New Institutional Economics theories (North, 1990) and Scott (1987)'s rational system, that can be related to governing as economizing à la Friedman. Second, a dominant **political** logic, matching *Resource Dependence Theory* (Pfeffer & Salancik, 2003) and Scott (1987)'s *natural* system. And then there's a social one, like *Institutional Theory* (DiMaggio, 1998) and Scott (1987)'s *open* system. Interestingly, these *logics* can be directly related to influential international events:

1. The Cold War and the radical postures of such a political divide, arguably fostering the early adoption of the free-enterprise models endorsed by the University of Chicago.
2. The democratization process, implying a convergent process between the business elites and the socialist authorities, further facilitated by the incorporation of politicians on to the boards, which was rapidly adopted in Chile following the examples of Spanish SOEs.
3. The emergence of global social movements against established powers, that also hit Chile in 2011, commencing an era of deep questioning of elites and their corporate governance practices, which remain to this day.

8.1 Contributions to Research

Lorsch (2012, p.134) has asked: who should act as convener of new *governance* practices, listing among possible candidates: stock exchanges, lawyers, business leaders, academics and authorities. He insists, however, on the convenience of providing a forum in which *governance* issues can be explored and agreements be made. Naturally, this thesis stops short of the actions required to explicitly providing for such a forum. However, the possibility of engaging managerial elites, with pivotal influence, through interlocking boards might be part of a larger change-process; and could be part of a series of initiatives contributing to set the wheels in motion to up-date Chilean governance practices – although such a long-term initiative goes well beyond the scope and time-frame of this research.

This research is distinctive in the following aspects, namely by:

- Involving part of the main actors, ‘managerial elites’ in Pettigrew’s terms (1995), it attempts to capture a major angle of the Chilean “*corporate governance* system” in its completeness by including the principal kind of actors present in the system provides a holistic perspective, scarce in research and of high practical value in practice;
- Using an approach derived from *Action Research* ethos, it offered a new application of mixed methods, in which the *Action Learning* method was used as a learning process enriching both the participants and permitting to extract conclusions and lessons for professional practice;
- Propelling a drive towards eventually produce a small contribution to promote change in the Chilean governance system, by reinforcing reflection, observation and mobilizing leading actors into action; who at their turn might act as conveners of a new and improved governance paradigm might also produce a major impact in practice.

This research is an attempt at systemizing the evolution of *corporate governance* in the context of an emerging market - an under-researched topic and, in the process; it makes the following scholarly contributions:

1. Linking different institutional governance *logics* to diverse (current) theories, which are used implicitly or explicitly by the primary actors in processing their *governing* problems –thus contributing to a small - but growing - stream of scholarly research interested in how theories model and impact reality (Westphal & Zajac, 2013).

2. Postulating the terms “*governing*” as an interpretive task of primary actors of institutional *logics*, mainly aimed to manage themselves amid institutional complexity.
3. Illustrating empirically a *process view* of *corporate governance*, including the stages of *awareness*, *accessibility* and *activation* (Thornton, Ocasio & Lounsbury, 2012; Aguilera et al., 2018).
4. Incorporating the role of *institutional entrepreneurs* as interpreters, learners, promoters and diffusors of new governance practices.
5. Defining and explaining the macro and micro links between institutions, *logics*, organizations and actors.
6. Exploring the non-linear interconnections between global events and local occurrences affecting a small country - acting usually as *net taker* of world trends, and how, because of some of these same events, the country has a chance to take a lead in new global developments.
7. Empirically illustrate how diverse institutional *logics* interact, supersede and increase the level of complexity of the *governing* function.

8.2 Limitations

The acknowledgement of limitations should start by reminding ourselves that the aim of an emerging theory is not a detailed report of data, but a cohesive set of interrelated concepts, revealing the main concern of participants and the underlying pattern of actions used recurrently to resolve their prime concern. Besides, the theory is restricted to one emergent basic social process. It does seek to explain everything about Chilean *corporate governance* endeavours, and it is not a definitive viewpoint - a the theory should be readily modifiable where new data comes to light, so enriching and illuminating other aspects or even contradicting the prevailing theory.

Therefore, *minding the corporate governing gap* is an emerging basic social process – others may well exist – that appears or prevails in time. An emerging characteristic of the theory uncovers the primary challenge of the time and may stay relevant while the theory is able to stay close-to-the-ground and relevant to the participants’ concerns of (Glaser & Holton, 2005a; 2005b; Loy, 2010).

The main limitations of this study are:

1. This has been a process of learning-by-doing. The author has borrowed parts of the methodology from *Grounded Theory*, to enrich an AR inspired project. As such, quite possibly some contradictions may not have been resolved. However, as an attenuate, any drift should be considered minor and the natural result of a pragmatically-guided outcome – consistent with my own epistemological and ontological basis.
2. The full compatibility of the *Action Research* and parts of *Grounded Theory* methods may be questioned. However, as discussed in **Chapter 3** and **Chapter 4**, there is evidence in the research community of this kind of combination. In general, the reasons behind this type of combination is to grant the researcher the ability to propose a substantive theory, whilst profiting from the richer and deeper interactions on the ground, enhanced by AR's more participative and open approach.
3. The data sampled in this research was only drawn from 12 actors. It goes without saying that this is a small number and the outcome might be very particular and specific to these particular actors and so not representative of the general concerns and the on-going basic social processes. However, both AR and GT methods are designed to work with relatively reduced samples. And, given the exploratory and in-depth approaches associated to such methods, small numbers of informants/participants are generally considered appropriate in *qualitative* research methodologies.
4. The data originates from a specific period and for a specific country. Therefore, the questions, answers and reflections the participants might be biased by recent events and might lack temporal representativeness. However, as explained above, the “live laboratory” producing data is permanently in movement and might experience changes and evolve over time. Thus, the only way of producing an active theory is to stay close to *lived* realities. In addition, this research has proposed a substantive theory aiming at transcending units, people and time, given that *minding the corporate governing gap* implies an ongoing reflection, learning and consistent actions, which imply the adaptation to evolving realities. Finally, any study of different periods of time or different theoretical sampling choices, might permit discovering other basic social processes, which might, in turn, explain the participants' more generic and latent concerns while offering possibilities of continuing to refine the theory. Nevertheless,

given the richness of the data, there is a possibility that *minding the corporate governing gap* is relevant among other potential alternatives remains tall.

5. The research has covered the Chilean reality and cannot be extrapolated to other national realities. However, cross-border theoretically sampling of realities might produce more generic and rich propositions and a more solid or, perhaps at a more developed stage, even a formal theory.

Therefore, despite the inevitable limitations of this research, this study is coherent with the methods employed and the philosophical posture. And it has endeavoured to respect the broad *Action Research* ethos of the DBA programme, while attempting to propose a theory of practical relevance for practitioners. At the same time, it seeks to contribute to scholarly knowledge.

8.3 Implications for *Corporate Governing in Practice*

1. To approach the *governing* function in practice, it is not the traditional industrial organization notion, which should be considered but the *field* as a contested space of incumbents, challengers and stakeholders. Such a conceptualisation gives a practical perspective to inform governing actions, by considering political actors, institutional entrepreneurs and social movements, the press, and diverse social networks, among others.
2. Actors in *governance* need to realise that the fields they operate in are interconnected with diverse national and global fields. This implies not only moving from an *introvert perspective*, centred on the organization, towards regarding the *social impact* of their organizations, but also connecting themselves with macro events occurring in diverse parts of the world.
3. The traditional business rationale for *governance* practice appears incomplete and urgently needs balancing in a generalised context of legitimacy, given the level of exposure, transparency and suspicion of elites (Mayol, 2016).
4. The image of actions occurring “behind closed doors” (Carter & Lorsch, 2004) that used to be valid to reflect the traditional intimacy of the board discussions needs to be brought into the 21st Century. Nowadays *making transparent* contingences is commonplace. Thus, legitimacy needs to be revered in the board and both within and without the organization.
5. Reading, interpreting and learning-by-doing appear as key activities in promoting an organisation’s adaptation to institutional change.

6. Institutional entrepreneurs are the actors to watch, to learn from and, eventually, to follow as they provide insights into how best to manage in face of complexity, given that those actors are the ones taking stable *fields* out of their equilibrium and/or showing the way to restore said equilibrium.
7. The appropriate management of these concepts has been shown to turn complexity into creative *governing* strategies. It can be a source of value-creation via exercises of deliberate exposure to stakeholders and “*creative introspection*” [SOP-2].

8.4 Implications for Future Research

This research is exploratory, qualitative and tentative and each of the propositions made can (and should) be tested by further studies. These propositions are deliberately set as falsifiable statements to facilitate such a task.

In addition, there is an interesting opportunity of exploring the possibility of turning the emerging theory into a formal theory by extending and diversifying the settings and contexts of study (Glaser, 2007). For instance, other Latin American countries might be considered, or other emerging markets across the world or other historical periods in the currently developed countries, at previous stages of their development. It might also be interesting to study countries in recent political transition.

The ideas developed in this research could be further and more closely and formally connected with the behavioural theory of *corporate governance* proposed by Westphal & Zajac (2013) and their colleagues.

Another line of interesting research might be connecting this emerging theory of *governing* as minding institutional logics with the study of *reflexive elites*, as carried out by Maclean, Harvey and Chia on British and French elites (2010; 2012) and Nayak for the Indian business elite (Nayak, Maclean, Harvey and Chia (2007).

Finally, extending the common understanding of *governance* to a broader vision of *governing* inspired in the notions proposed by Foucault (2000) would be conducive to encompassing the increased complexity of *corporate governance* practices in the current era of corporate turmoil.

8.5 Reflections on Learning, Action, Implications and Contributions

In this section I provide my own reflections on the whole thesis process. I have organized my reflections in an attempt to explain how my questions evolved throughout the process; how the learning developed during this research has been propelling new behaviours and informing my current professional initiatives; what (I believe) participants learnt from the exchanges and my perception of the ensuing changes in their behaviour. I also engage with my initial concerns referred in the Preface, and I report the emerging actions beginning to happen.

a) *The evolution of my questions:* My initial set of questions evolved and changed as, through my readings, I became more familiar with *Grounded Theory*. I started with the research questions: What are the challenges faced by the main actors in the corporate arena deriving from socio-political-economic institutional changes in the period 1973 to 2016? How did those actors address these challenges and what were their corresponding governance strategies? The changes were related to the *Grounded Theory* turn of my research. This is due primarily to the fact that GT does not work with formal research questions but more with research *interests* (Charmaz, 2006). GT incorporates implicit questions or aspects to make observations about, for example “what is going on?”, “what are the participants’ main concern?”, “what are participants doing to resolve their issues?”, “what process are they using to deal with their problems?”. Therefore, I adapted my questions to make them compatible with both GT and AR. My original research questions were influenced by my readings of Glaser and his colleagues and evolved into the following:

- What is going on in the corporate governance (CG) arena?
- What are the main actors in the governance arena doing about CG? and
- What can be learned about CG?

This evolution in my research questions represented a trade-off when combining both GT and AR. It was also consistent with my pragmatic philosophical posture.

b) *Taking stock of my own learning:* This thesis is an account of an intensive learning journey, in which I deepened my understanding of prevalent governance theories and research methodologies. And, through my exchanges with the participants, I was able to gain access to the inner-workings of the Chilean elites. However, the most rewarding aspect of this project came from the insights it gave me into Chile’s institutional working logic, namely in

deciphering how the country is ruled and gaining privileged knowledge of the practicalities of how organizations are really governed. As a reflective scholar-practitioner, this conferred on me both professional and ethical responsibilities in attempting to balance business acumen and social sensitivity, with the rigours of scientific research.

My learning also took place at the conceptual level. I discovered corporate governance as a social construction dynamically intertwining practices, dilemmas and theories (Bevir, 2011). This helps explain why I have tended to privilege the conceptualisation around the construct *governing* (as a counterpoint to *governance*) as it goes well beyond just business issues. This helped expand my comprehension of business organizations and begin seeing them as both private entities *and* public institutions embedded in society, which are, consequently, influenced by the economic, political, and sociocultural forces that shape their corporate destiny - as argued by Warren, (2003). In an emerging market setting, the adequate or inadequate corporate governance conduct of large business groups is key in shaping a nation's destiny – especially given important roles private sector corporations play in providing employment and efficiently producing wealth for the society (Judge Douglas & Kutan, 2008). But those leading entities might also contribute to diminishing or widening socio-economic inequalities, preserving or altering the natural environment, and promoting or avoiding fraud and malfeasance. All these events influence the fundamental legitimacy of business in society.

This is why, first, I make a point of arguing for the recognition of the institutional construction of corporate *governing* in Chile so as to emphasise its overarching scope - well beyond the traditional functional and structural aspects of corporate *governance*, which are well established in existing literature. To my mind, this has profound implications on our understanding and encourages me to believe we can expect an on-going stream of corporate problems that go well beyond the lack of “best practices”:

Second: we people make the difference everywhere we intervene, as humans we are driven by our interests but also by meaning systems, and that that makes us human creates deviance in corporate and institutional systems. This flags just how different and path-dependent is the development process of each country, and how much institutions might differ from one nation -or field- to another. As a country's institutional logics develop, mix and evolve, they drive to different outcomes at different moments of time.

- c) *Enacting my own learning*: In practical terms, putting my learning into practice requires me to communicate the ideas I have developed here across many varied audiences. The first step (currently ongoing) involves 1-on-1 meetings with my 12 participants to present final results in an ordered and coherent manner, as distinct from the partial snapshots of findings and reflections I shared with them in previous rounds of interviews. This not only serves to close the loop with them, but will also attempt to leverage their influence, knowledge-base and networks to foster a larger impact. My aim is to advocate for a quicker and broader exposure and then wider deployment of my *governing* imperatives. All this will be channelled further through conferences I am looking to organise with the Corporate Governance Centre of my academic house, The Catholic University of Chile, in partnership with the Harvard Club of Chile, of which I am also an active member, together with two of my participants who will be invited to commentators to maximise the attractiveness of these events and so secure the interest of relevant media. These efforts are already currently supported through a series of short columns I am writing and having published in the Chilean press. I also have a short-term plan to join a radio network as panellist. Naturally, the experience and knowledge developed serves to enhance my role as board member and professor, giving me a multidimensional platform to spread these ideas. In this case, although I have no plans to be an institutional entrepreneur – like the ones studied in this thesis - I am looking to generate considerable public awareness with a view to becoming a voice/leader in promoting the new *governing* practices. I also have an ambition to push the frontier of the concept of *governance* in the academic community which I see as overly too confined to board functions, as it needs to get closer to the institutional setting, as I have argued in the previous section.
- d) *Participants Learning and Practices*: The participants demonstrate a broad understanding of the new realities of *governing*. The following lists some of the observable (or declared) actions of a sample of participants:
- BUI is currently involved in a new initiative attempting to link business and society using the platform provided through his participation on a major business association. He affirms that our interactions have been valuable in giving him time to stop, reflect and process his thoughts before going back into action with fresh ideas and renewed energy;

- REG recognized the value of the framework developed in this thesis as offering a practical framework to assessing social complexity. He is contributing as a service provider to empower compliance officers and help corporations take stock of their new regulatory imperatives. He is also active trying to establish a new centre for social and public debate;
 - SOP: acknowledged the value of the framework in studying and demonstrating in a dynamic manner how events occurred in Chile over a long period, as well as the consequent adjustment process of organizations. SOP manifests to be attempting to deal in his board practice with the difficulties derived from illegitimacy installed as “the natural condition” of most organizations and national institutions from the viewpoint of society. This implies preparing his organization to face major conflicts in political, social and media settings;
 - ENT: has formed an electronic platform to provide access to new actors to become involved in politics, arguing that his is the first political party “without ideology”. His attempt is to democratize politics. He sees it as a way of breaking with monopolies of the past and creating opportunities for people who do not belong to the *Country Club*.
- e) *Ongoing Actions*: Confronting the initial concerns that led me to choose this topic, there are several developments of interest and new lines of activity, which can (I believe) be tied - directly or indirectly - to this study, given the participation of some of my participants - and/or their direct partners and colleagues. These new activities, which I see are beginning to take shape are occurring at a general level. In Chile, the main business association (CPC), the association of entrepreneurs (ASECH), Catholic University, B-Corporations System, and the Association of NGOs, have come together to create an initiative called 3Xi (“inspiring including, innovating ourselves” – see **Appendix 8 The 3Xi Initiative**).

Working under the theme “Towards a culture of encountering”, this 3Xi initiative has brought together “diverse groups of people of action called on to contribute ideas and enrich the discussion and, coming together, take up the challenges of an integral and sustainable development”. To-date, 400 people have participated in five meetings, these include businessmen, entrepreneurs, representative of civil society and B-Corps, leaders of business associations, indigenous people, business executives, and innovation leaders. The goal is to get to know each other better and strengthen trust “to build a better Chile”. Further meetings are

planned and collaborative initiatives are being developed to improve the quality of life of Chileans. Those include free surgery for the poor; preparing forms for the inclusion of disabled people in companies; a network of innovation centres throughout Chile; as well as a project to clean the banks of the river Mapocho and others to improve the life of vulnerable children (see a synthetic picture of the gatherings below).



This initiative is without precedent in Chile and has sought to break down the traditional social and economic separation. Thus, it can be seen as an active recognition of the existence of a new institutional logic - without resigning from the previous ones - and the desire of private enterprises (and their leaders) to become acceptable members of society, and naturally to increase their legitimacy. It is also interesting to note that business leaders are playing down their economic supremacy, political power-base or technical superiority, but, conversely, recognising that companies need to learn from innovators, entrepreneurs, B-Corps, and NGOs, as well as to include

within their concerns the need to care for vulnerable persons like indigenous, poor people and children.

Although the 3Xi Initiative in no way can be presented as an outcome of this research, the emergence and strength of this initiative is a clear demonstration of the concerns of principal actors in the governance system: a (legitimate) attempt to understand the new institutional logic, to learn from institutional entrepreneurs and deal with the new challenges that they are facing - as found and conceptualised in this study.

8.6 Policy Propositions for Practitioners

The implicit purpose of this thesis has been to work out valuable guidelines for practitioners. Thus, I briefly turn to implications for practitioners at three levels: micro (organization), intermediate (business associations and think tanks) and macro (government).

- a) *Corporate Leaders*: To navigate the complexity of dealing with multiple institutional logics this research argues for the convenience of having a three-pronged approach attacking simultaneously the priorities of excellence, legitimacy and sense-giving. This implies first, dealing with the managerial requests of performance, competitive survival and prosperity. Second, assuming governing policies oriented to ensure corporate transparency, responsibility and accountability. And third, digging into their foundational values to develop a shared understanding of their corporate purpose and committing the organization to become an appreciated social actor.
- b) *Business Associations*: Should elude their capture by the *Country Club* and aim at representing business-at-large. The conceptual priorities are of *regulative* nature: adopting voluntarily and in a proactive manner an *Environmental, Social and Governance* (ESG) Code as basis of business conduct in society. The priorities are also *normative*: making the defence of appropriate corporate behaviour the basis of their public interventions and internal alignment -closing ears to misleading calls of friendship, convenience and cronyism, sheltering corporate deviance. And priorities are also *cognitive*: proposing a motivating storyline of fair play, fair trade, and social responsibility. All these priorities taken together should help building empathy between business and society, fostering a mobilizing social dialogue.

- c) *Policy Makers*: A small country like Chile needs growth, progress, and innovation to achieve the full development to provide valuable opportunities for all its people. The business elite has been identified as the source of both advancement and obstruction (Ben Ross Schneider, op cit.). Therefore, the government should re-orient its regulatory systems and development agencies with a decisive pro-market attitude (distinct from a pro-business one). Regulators should have as goal not just *stabilizing* key sectors, like banking, pensions, health, education, insurance, capital market, among others, but also *promoting* competition and innovation, and welcome instead of avoiding disruption. Therefore, fostering entrepreneurship in concentrated fields should be considered as part of their overseeing duties and they should be considered accountable for it. In the context of social dialogue, government should also become a promoter of community interchange and get included at some stage in initiatives like 3XI. Finally, the government as representative of the state should have as central role articulating an overarching national narrative capturing our unique chance of working together to build a better future for all; making individual effort and social solidarity the key ingredients of such dream. And it should endeavour in restoring and reinforcing public trust in Chilean institutions, leading the way to make Chile a more equitable, thriving and nurturing nation.

8.7 Concluding Remarks

I would like to close this work by recognising both the difficulties of access and extended interviews and the rare opportunities of establishing sustained *longitudinal relationships* with elite practitioners (Maclean et al., 2012; Pettigrew, 1995) and the force this has given to this research.

I would also like to remark on the distinctiveness of this research project as an attempt to capture sense-making process *in flight* (Pettigrew, 1995) as well as the value of combining an *Action Research* ethos with the possibilities offered by *Grounded Theory* methods, using process data (Langley, 1999; Isabella, 1990). In this case this combination facilitated:

1. Dealing with a succession of incidents – scandals bringing changes in regulations, arousing public sensibilities and increasing the degree of intolerance of unprincipled board practices;

2. Encompassing various levels and units of analysis with ambiguous boundaries – in this case seeing a shift in the unit of analysis from *scandals* (as motivator of conversations) to the application of *governing principles in practice*;
3. Considering diverse periods of time, despite inconstant accuracy, scope and significance – so as to assess and bring together diverse and heterogeneous cases, contexts and incidents, many of them held in participants' memories, some past and others on-going; and
4. Capturing eclectic sources and types of data – in this case: interrelations, judgments, appreciations, emotions, mind-sets and understandings deriving from each participant's interpretations of incidents.

As such, this research has helped me recognise different stages, marked by corporate scandals, and extract macro-level lessons, such as institutional perspectives and their impact on the *governance* “systems”, right down to a micro-level, through each participant's realities and so scholarly dig into the understandings and feelings of diverse individuals and groups as they experience in first-hand basis meaningful institutional processes.

The outcome has been a process view of *governing* - a gerund - capturing both the potentialities of theory building from the ground up and reflecting, in the midst of action, on the spirit of *Action Research*, the *leitmotiv* of the DBA programme.

My final reflections must be on my professional practice and the substantive issue of *governing*. This is the end of a long journey. Although I said in the introductory chapter that this all started in a board meeting in late 2014 when I decided to expose myself by openly criticizing a series of corporate governance scandals that had unsettled the Chilean small corporate governance world and discovered that many of my fellow directors shared my discomfort and concern. It also came back at the same board in October 2016 when I presented my findings and the thesis conceptualisation to get their feedback. Again, the result was warm, helpful and comforting, which, beyond the natural solidarity of peers, gives an idea of the workability of the conclusions, their fit with the concerns of practitioners, and perceived relevance of my emerging theory.

As I review the ground covered in my research process, I am keen to put the acquired knowledge back into my professional practice. This is particularly evident, as I was recently appointed to the board of a prestigious, large, publicly held, professional service organization. As I retrace the

governing processes this organization has undergone since its foundation to the present day, the theory of *minding the governing gap* helps me make sense of main challenges; serving as both a sensitizing process and a compass for setting priorities.

Throughout this exercise I have noticed how the aim of enhancing performance has been reduced – in my mind - to around one third of the *governing* equation; equally relevant for *good governance* are achieving a good fit with the institutional logic, including respecting the requirements of responsibility, transparency and accountability to achieve the goal of legitimacy. Most relevantly, I perceive as highly critical, an active search for meaning and developing shared values to creating create a shared sense of purpose for the organization – *feed-forwarding* the two previous components.

This short exercise reflects my own evolution as scholar–practitioner. I keep noticing how my economist’s positivist background has given way to doubt, favouring a greater openness and a critical stance as well as stimulating a broader outlook to encompass social, ethical and political perspectives in my professional practice.

It has also helped me clarify the paradox observed in the introduction, i.e. noticing how *virtuous* and *vicious* governance coexist, and how corporate governing main challenge is to keep re-interpreting the institutional scenario, re-learning and re-adjusting its basis for continual improvement in a continuous, never-ending, evolutionary process.

I conclude recalling the wise advice offered by Vaclav Havel (1991) in his speech warning against the temptations of power: “I suspect myself”, which I adopt as a rule-of-thumb when *minding my own governing gaps* in practice.

APPENDIX 1 - SUMMARY OF MAIN SCANDALS

(Own elaboration based on scandals identified by participants)

#	Period of time	Companies involved	Main issue (Code-Name used in text)	Source of detection	Summary of the situation-problem (Penalisation)	Pension Funds' (AFP in Spanish) (re) actions
1	1997	Enersis, Endesa-España, Endesa-Chile, Chispas and AFPs	Duty of loyalty of managers in context of takeover ("Chispas")	Denunciation by minority shareholders, the AFPs and SVS (Securities Commission)	Secret deal between top management team of Enersis and acquiring SOE Endesa-España to achieve a <i>de facto</i> control of the Endesa-Chile paying an extraordinary bid premium just to the TMT. (USD 90.8 million)	"AFPs criticised the agreement between managers of Enersis and Endesa-España referred to the takeover of Endesa Chile. AFPs cited an extraordinary shareholders' meeting, they alerted the SVS and were key actors to modify the takeover's conditions."
2	1999	Telefonica-España, Terra, Telefónica CTC (Chile), Telefónica Net and AFPs	Duty of loyalty of managers. Conflict Holding Company-Subsidiary ("Terra")	Press	Opposition of independent directors to transaction between related parties: Telefonica-España, controlling parent of Terra, which bought from its subsidiary Telefónica-CTC, Telefónica Net at a price below market value.	AFP rejected the price offered seeing it as under the market value. Board members elected by AFPs opposed the deal, the AFPs voted against the transaction at the shareholders meeting and they took legal measures against Telefónica CTC.
3	2004	Telefonica-España, Telefónica CTC (Chile), Telefónica-Móviles (Spain), Telefónica Celulares and AFPs	Duty of loyalty of managers. Conflict Holding Company-Subsidiary ("Móviles")	Press	Opposition of AFPs to transaction between related parties: Telefonica-Móviles, which attempted to buy from Telefónica-CTC, Telefónica Celulares, at a price estimated insufficient.	The AFP protested requesting an extraordinary shareholders meeting to revise the terms of the deal, negotiating an increase in the price paid of USD 50 millions and an extraordinary dividend of USD 800 millions.
4	December 2007 and April 2009	Farmacias Ahumada, Farmacias (FASA) Salcobrand, Farmacias Cruz Verde and AFPs	Pharmacy chains collusion. Duty of care of directors ("Farmacias")	Self-denunciation by FASA	December 2008: the Economic Prosecutor's Office investigates three Chilean pharmacy chains due to drug price collusion practices. March 2009: the Free Competition Court accuses the three chains of collusion to raise the prices of 222 drugs between 2007-2009. (Penalty \$241,100)	AFPs presented tough criticism to the board of FASA, financial states were not approved and legal measures were taken by the Association of AFPs.

5	2012	Endesa-España, Enersis and AFPs	Principal-principal conflict of interest. Duties of loyalty. ("Enersis")	Independent directors	Increase of capital paid with assets of the controlling blockholder. The attempted transaction involved related parties and favoured the controlling group vis a vis minority shareholders	Strong dispute with AFPs for form and background of deal. Finally, the valuation of the assets is reduced in USD1.2 billion and the conflicts of interest mitigated.
6	2005-2013	Soquimich, Potash Corp (USA), Cascadas, Larrain-Vial (investment bank) and AFPs	Principal-Principal conflict of interest. Duties of Loyalty ("Cascadas")	Moneda Asset, AFPs and Super-intendence of Values & Securities (SVS)	Abuses of blockholders to minority shareholders through pyramids (cascadas or waterfalls) used to control SQM and expropriate small shareholders. 2013: SVS ordered reversing controlling cascadas profits for USD 663 millions. (total penalty: USD 164 millions for board members and Larrain-Vial)	2005: AFPs supported changes in company bylaws to limit voting power of related parties contravening corporate norms. 2006: AFPs successfully rejected shareholders agreement covenants designed to control SQM. 2012: AFPs requested SVS to investigate transactions between cascadas.
7	2013-2015	Caval, Banco de Chile and Luksic Group	Politically exposed person (PEP) obtains credit through the direct intervention of the vice-chairman of the bank/head of a large business group. ("Caval")	Press	Chile's main Bank provided loan to a real estate deal led by President Bachelet's daughter in law. Deal questioned due to: 1) transaction that allowed buying land in USD10,7 m. and selling it in less than a year later in USD15.6 m. taking advantage of a change in urban plan; 2) (Unusual) direct intervention of the chairman of the bank in a credit operation and -by his express request- the son of president Bachelet; 3) (Uncommon) approval of an important amount of credit to a start-up without relevant equity.	Not involved

8	2015	Penta, UDI political party; Piñera Government.	Fraud to the Treasury; bribery, money laundering and corruption of authorities. ("Penta")	Whistle-blower	Use of "ideologically false" honoraria to finance elections of various politicians linked to right-wing politicians and public officers.	Not involved.
9	2015-2016	Chicken producers: Agrosuper, Superpollo and Ariztía, and Supermarket chains: Cencosud, Walmart and Unimarc.	Chicken price & volume collusion. ("Pollos")	National Economic Fiscal (FNE) accusation	Three producers of chicken and three supermarket chains successively accused of acting as cartel using collusive practices to coordinate prices and production between 2008 and 2011. Both jointly representing 90% of their industries.	Not involved.
10	2016	CMPC and SCA (Sweden)	Price collusion ("Tissue")	Self-denunciation by CMPC	Price fixing and production quotas of hygienic paper products. The cartel represented 90% of the market and operated between 2000 and 2011. (Penalty \$150 million)	Not involved directly.
11	2016	SQM	Fraud to the Treasury; bribery, money laundering and corruption of authorities. ("SQM")	Whistle-blower	Use of "ideologically false" honoraria to finance elections of various politicians linked to both right and left wing politicians and public officers.	Not directly involved.

Sources: Pardow (2012), FNE (2016), Donoso & López (2016), Association of AFP (2013), SVS (2014).

APPENDIX 2 – QUESTIONS

FIRST ROUND

Sr(a).

Duration: Hrs.

Time Beginning // Hora de Comienzo:

Time End // Hora de término:

Date // Fecha:

1. Which have been the main corporate governance scandals (CGS)? / ¿Cuáles han sido los mayores CCGS?
- 2.- Why do you think these have been the main scandals? / ¿Porqué han sido esos los mayores CCGS?
- 3.- Why do you consider these CGS? What was scandalous about them? / ¿Porqué han sido escandalos de gobierno corporativo? ¿qué fue lo escandaloso?
- 4.- What was at stake? / ¿Qué se puso en juego?
- 5.- What norms were infringed? / Qué normas se vulneraron?
- 6.- What was revealed? / ¿Qué se develó?
- 7.- What emotions were mobilised? / ¿Qué emociones se movilizaron?
- 8.- What assumption was broken? / ¿Qué supuesto se rompió?
- 9.- What failed in regulation? / ¿Qué falló en la regulación?
- 10.- What void became evident? / ¿Qué vacío se evidenció?
- 11.- What experiences produced? / ¿Qué Experiencias se produjeron?
- 12.- What had to be corrected? / ¿Qué hubo que corregir?
- 13.- What do these cases have in common? / ¿Qué denominadores comunes tienen esos casos?
- 14.- What did you learn? / ¿Qué aprendiste de ellos?

SECOND ROUND

Goals:

- a) To get an idea of the evolution of the corporate governance standards
- b) To identify the gap between current standard and the ideal one.
- c) To achieve short term commitments from participants (to be evaluated in third round).

Introduction:

- Gonzalo explains the applied research approach of the thesis oriented to generate practical impact → to make them understand that they answers have impact and that they have to think in strategies/ tactics (conversations + actions)

Sr(a).

Duración: Hrs.

Hora de Comienzo:

Hora de término:

Fecha: /1/1

1. Hacia dónde se va moviendo la evolución del sistema (a partir de estos escándalos) / **do you see the governance system evolving (due to scandals)? In what direction?**
2. ¿Es deseable esta evolución? Preguntar por beneficios / riesgos. / **do you like this direction? Is it desirable? Benefits & risks?**
3. ¿Cómo te gustaría a ti que evolucionaran? (Estándar ideal) / **how would you like to see it evolving?**
4. ¿Cuál sería la brecha entre evolución actual / evolución ideal? / **what is-would be the gap between actual evolution v. Ideal evolution?**
5. ¿Cuáles serían los elementos claves en la brecha evolución actual / evolución ideal? (¿cómo cerrar la brecha?) / **how would you close the gap between both?**
6. Proceso de cambio → ¿qué soluciones puede haber en ese sentido? (dejar abierto para que ellos planteen soluciones) / **what solutions do you envisage?**
7. Intervenir guiando las soluciones planteadas → indagar y proponerle alguna(s) (ver si faltan soluciones de algún ámbito o algo más práctico) / **tell me more....?**
8. Preguntar y pedir algún contexto en donde está esta brecha./ **could you be more specific about the context?**
9. ¿Por qué te preocupa o interesa hacer algo para acercar esta brecha? / **why do you care for the gap? What concerns you?**
10. ¿Qué podrías hacer, pero que no has probado antes? (a la luz de las respuestas anteriores) / **what could you do that haven't tried earlier?**
11. Cierre: Compromisos de intento para cambiar algo → guiarlo al corto plazo (2 a 3 meses). **Could you commit to do something? ... in the short run?**

THIRD ROUND

1. **Cómo te ha ido con tus desafíos de governance? / How are you doing with your governance challenges?**
2. **Casos o anécdotas personales en que te has enfrentado (en tus narices situaciones que no son correctas) con crisis o escándalos? / Cases or personal anecdotes you have faced**
3. **Qué te ha resultado? / What outcomes have resulted from such situations?**
4. **Qué es lo que no te ha resultado? Porqué no te ha resultado? / What has not produced good outcomes? Why so?**
5. **¿Cómo crees que eres percibido? ¿Se condice con cómo tú quieres ser percibido? / How are you perceived? Is it consistent with the way you wish to be perceived?**
6. **Cuáles son los costos, problemas e incomodidades de ser confundido con los que se han visto involucrados en escándalos? / What are the costs, issues, and discomfort you feel in case of been confused with those involved in scandals?**
7. **Qué riesgos sientes que corres como participante en los gobiernos corporativos? / What risks do you face as participant in corporate governance activities?**
8. **Cómo te diferencias de los crápulas? (Piensa en el público general que no te conoce bien) / How do you differentiate yourself from crooks? (think from th viewpoint of people who does not know you well)**
9. **Qué te quita el sueño como director? / What might make your nights blank as board member?**
10. **Qué estás haciendo al respecto? / What are you doing about it?**
11. **Cuál es tu plan en el contexto de gobierno corporativo que estás viviendo? (para generar una mejor imagen del mundo empresarial y evitar escándalos corporativos?) / What is your plan in the context of governance? (to generate a better image of business / to avoid corporate scandals?)**

APPENDIX 3 - OPEN CODING – ALL CODES

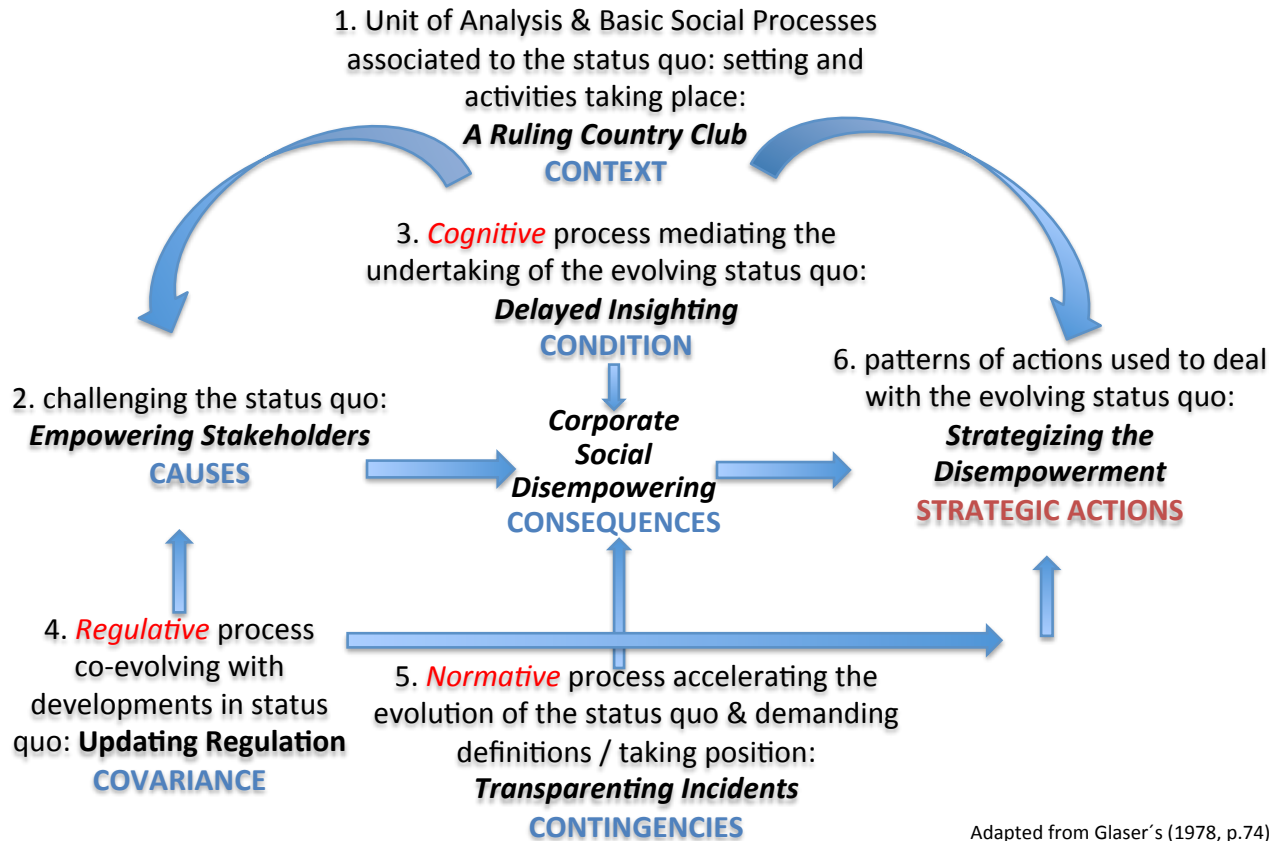
#	CODE	RESOURCES	REFERENCES	CREATED
1	Actors	0	0	30-03-2015 19:25
2	Lawyers o executives advisors	2	2	08-04-2015 17:24
3	Shareholders	7	13	01-04-2015 18:27
4	AFP	8	13	02-04-2015 15:35
5	Controlling Shareholders	3	3	15-04-2015 14:15
6	Stockbrokers or Investment Banks	3	5	09-04-2015 18:33
7	Directors independents o external	3	5	09-04-2015 18:58
8	Directories o Corporate Govern	6	15	31-03-2015 20:51
9	Entrepreneurs	1	2	10-06-2015 20:01
10	Industrialists	7	14	30-03-2015 19:28
11	State or Government	6	14	06-04-2015 17:49
12	Gatekeepers	1	1	09-04-2015 18:40
13	Managers	2	4	01-04-2015 19:15
14	Guilds	1	1	14-04-2015 13:39
15	Justice o Judicial Power	2	4	17-04-2015 11:54
16	Regulatory agencies	1	1	14-04-2015 21:13
17	Press	2	4	15-04-2015 14:23
18	Civil Society	3	5	14-04-2015 21:24
19	International Society	4	7	30-03-2015 19:38
20	Learning, experiences, corrections	12	126	30-03-2015 19:56
21	Self conscience	10	43	14-04-2015 12:13
22	Regulatory change	0	0	30-03-2015 19:47
27	Causes	1	2	30-03-2015 11:02
41	Context Country	0	0	30-03-2015 17:10
42	Crisis	11	23	09-04-2015 17:08
43	Economic development	10	39	30-03-2015 17:11
44	Role of the state Chilean market	7	18	07-04-2015 20:42
45	Institutional Dynamics	0	0	14-04-2015 12:13
49	Scandals	6	9	30-03-2015 10:34
60	Narrative	10	41	30-03-2015 16:34
61	Norms, standards y values	10	22	30-03-2015 19:50
62	Process of social change	0	0	31-03-2015 19:31
67	Risks of temporary solutions	6	13	30-03-2015 20:02
68	Solutions	0	0	30-03-2015 10:48
69	Change in comportment	7	14	30-03-2015 20:40
70	Ethic behaviour	6	14	09-04-2015 18:00
71	Develop talents & specialization	3	8	10-06-2015 19:54
72	Formation of values	2	3	30-03-2015 20:17
73	Introspection & reflexion	7	13	08-04-2015 17:35
74	Necessity of actualization	5	6	15-04-2015 18:34
75	Necessity of control & monitoring	7	14	05-06-2015 0:47
76	Not leave the market alone	2	2	14-04-2015 21:21
77	Appropriates Penalties	3	3	05-06-2015 18:46
78	Permanent legal actualization	2	4	14-04-2015 21:19
79	Social corporate responsibility	5	6	30-03-2015 20:16
80	Role of business organizations	1	1	30-03-2015 10:53
81	Stakes	11	44	30-03-2015 16:26
82	Assumptions	11	46	30-03-2015 11:16
83	Agency - individualism	12	153	17-07-2015 12:54
84	Behaviours	1	1	17-07-2015 12:55

85	A- Ideal	12	124	17-07-2015 12:55
86	B- Cronyism	12	183	17-07-2015 12:57
87	C- Stakeholding	12	114	17-07-2015 12:58
88	Structure - Establishment	12	57	17-07-2015 12:54
89	GIVE SENSE	0	0	11-08-2015 20:29
90	Economic growth	3	6	11-08-2015 23:09
91	Social demand for transparency	3	7	11-08-2015 21:19
92	Strengthening institutions	4	8	16-08-2015 10:38
93	No laissez faire	1	1	16-08-2015 11:39
94	Protection of the economy	4	12	11-08-2015 20:50
95	Responsibility of board	4	21	11-08-2015 23:11
96	Re-establish trust	1	2	16-08-2015 10:37
97	Role of media	1	1	16-08-2015 10:37
98	MAKE SENSE	0	0	11-08-2015 20:29
99	Change in cultural values	5	21	11-08-2015 21:10
100	Complexity of the system	3	5	16-08-2015 10:35
101	De-legitimation of system	5	21	11-08-2015 20:56
102	Market failure	5	12	16-08-2015 10:32
103	Chilean business profile	3	4	16-08-2015 10:23
104	Role of associations	1	1	16-08-2015 10:23
105	De-legitimization of the state	3	8	11-08-2015 21:01
106	Scandals as frauds	3	9	11-08-2015 20:32
107	Failure of boards	6	29	15-08-2015 12:44
108	Lack of regulation	5	13	15-08-2015 11:22
109	Functioning of institutions	4	7	16-08-2015 10:25
110	Institutions as rules	2	3	15-08-2015 12:15
111	Impact in society	4	12	11-08-2015 20:44
112	Social distrust	5	7	16-08-2015 10:21
113	Media & communications disorder	2	2	16-08-2015 10:32
114	Economic losses of scandals	2	3	11-08-2015 20:40
115	Repercussion in Public Opinion	4	7	11-08-2015 20:42

Source: Codes exported from NVivo 11

APPENDIX 4 - ATTEMPTS TO FIT THE 6Cs SOCIOLOGICAL FAMILY

6 Cs + S Families: Basic Social Processes



Adapted from Glaser's (1978, p.74)

APPENDIX 5 - SAMPLE CONCEPTUAL MEMOS

(EXPORTED FROM NVIVO)

Title	Rules of the Game among Incumbents and Challengers
Ref:	Interview with REF-2
Date:	07/08/15
<p>Beyond the evolutionary process of development of an emerging market, it's institutions and it's society, REF seems to be referring to issues created by the clash between the rules of game followed by traditional players, who play by the rules, and new actors: smaller investors, activist investors, new managers, who don't follow them. or perhaps they have other frames of reference? Or are they inventing their own rules? Do they know the rules they are supposed to play by? Is this a question of interpretation or sensemaking (authoring their own rules, Maitlis & Christianson, 2014). Are these original Chilean rules or just the local application of a global trend?</p> <p>And what do all of this means in terms of sensegiving? Can we say that the old boys played by the book? Actually some of them did not: collusion, fraud one of them, bad practices by most and just plain lousy work as board members by the majority</p> <p>Therefore, perhaps there is a case of outmoded practices out of synch with modernity, left and right,... literally.</p>	

Title	Corporate Governance & Institutional Evolution		
Ref:	Self-reflection		
Date:	07/08/15		
<p>Corporate governance cannot be separated from the institutional evolution in an emerging market like Chile. As such, CG requires taking a systemic perspective, perhaps considering CG a field in which we find:</p>			
<p style="text-align: center;">INCUMBENTS (RULE PLAYERS)</p>			
POLITICAL ACTORS (RULE MAKERS)	GOVERNANCE ARENA (RULE SHAPING)	GATEKEEPERS (MEDIA, REGULATOR,COURTS (RULE ENFORCERS)	
<p style="text-align: center;">INSURGENTS (SMALL INVESTORS, ACTIVIST INVESTORS, ENTREPRENEURS) (RULE TAKERS)</p>			
<p>Each actor is making his/her sensemaking and sensegiving. Thus, it seems puerile and senseless to focus in the 4 CG suspects, given the broad context in which CG is evolving.</p>			

Title	Problems: What, Whose, Why?
Ref:	Self-reflection
Date:	23/08/15

What problem do participants have with the Corporate Governance Scandals? with the guilty ones? with bad practices? some, indeed

- they do not want to be confused with the ones cheating
- they do not want the Chilean population to keep businesses in low esteem
- they don't want Chilean society turning against the free market system
- they don't want a bad image for the business class
- they don't want some spoiling the capital market
- they don't want a statist system to take over the free enterprise system
- they do not want wrong laws, made in haste debilitating chances to reach a developed level
- they don't want institutions to lose credibility and affect the development and wellbeing of the country

Whose problems are these?

- they seem to feel they are part of the system and thus probably feel the problem to be their own
- however, most do alright and do not seem to have any direct problem with it all and could continue happily doing their own thing.
- yes, but most have social roles and one could hypothesise that they attempt to influence positively the society they live in

Why are they concerned?

- patriotism
- self-interest
- state of business
- business as usual?

Are they doing something about it? something:

- rapprochement of business people and politicians,
- raising the standards of governance
- doing business while doing good (or viceversa)
- improving their practices
- been more cautious
- Trying to understand more the side of society/workers

Are there any patterns that can be discerned?

- not sure, but perhaps mainly making sense that the situation has changed and that there is no business as usual any longer
- attempting to give -larger, deeper, more professional- sense to their professional practices
- they are concerned for the institutions

Is there anything they are not looking at?

- perhaps the rule setting-playing-taking-enforcing circular game that makes the institutions go round or establishes its equilibrium.

Title **Chile in a Governance Crisis?**

Ref: **Self-reflection**

Date: **23/08/15**

Most participants seem to be referring to an ongoing governance crisis context. So, some questions arise:

- why at this time and place?
- who sets the policies for dealing with it?
- what were the limitations that participants face for dealing with the crisis?
- what are all the problems?
- How do participants overcome the obstacles or manage the problems to increase their chances of achieving their goals? what are their goals?

APPENDIX 6 - CHILEAN CONTEXT

1. General Overview

Since the beginning of the 21st Century Chile has had an important and increasing number of *corporate governance* scandals, featuring high profile industrialists and politicians from all sectors. A palpable consequence has been the sharp drop in public trust in private enterprise (*Centro de Estudios Públicos*; 2015), propelling a drive towards a systematic questioning of large businesses, wealthy families and, in knowledgeable circles, the *corporate governance* of organizations and institutions.

Cases of collusion, fraud, corporate abuses and traffic of influence are common-place in day-to-day conversations, and affairs and the associated names have become household hate-figures-of-speech (Undurraga, 2015; for a list and short summary of the cases see **Appendix 1**). And even the formerly prestigious Santiago Stock Exchange has been the subject of criticism, driving a series of measures, including a recent board reshuffle, ending 25 years of Chairman immovability; a thorough revision of stock broker procedures to deal with conflicts of interest; and expectations of new ad hoc. Regulations. These developments have given shape to the idea that Chilean *corporate governance* is under critical pressure.

Let's briefly review Chilean history, with special emphasis on the period covered in this research: the last 50 years, marked by contrasting institutional changes.

The Chilean state played a relevant role as founder of large state-owned enterprises (SOEs) for three decades, from the early 1940s until the end of the 1960s. And its role expanded explosively during the brief socialist government of Salvador Allende (1970-1973) through the nationalisation of hundreds of private companies. This process was reversed following the coup d'état led by general Augusto Pinochet in 1973. The military regime organised two vast (re)privatization processes that led to the formation of many business groups, led by former executives, most of which - according to informal accounts collected by this researcher from well-informed observers who requested anonymity - were hand-picked by the regime.

Since the mid-1980s, there has been a clear separation between private sector and the state. The latter has seen its participation in the economy "reduced" to a subsidiary role in most sectors, thus

Chile no longer displays the typical pattern of state-influence found in Mediterranean countries exhibiting *dirigisme* approaches (Aguilera, 2003).

Chilean corporate ownership is highly concentrated and characterized by the influence of large business groups that collectively control “directly or indirectly ... over 90% of the total assets of listed companies” (Lefort, 2010, p. 397). In an earlier study, Lefort (2005) finds that 80% of listed firms are family-owned businesses. The remaining company controllers are (primarily) European multinational corporations, with a concentration of investments in the utilities sector. International banks are also very active in the national landscape. This is partly due to strict banking regulations since the debt crisis of 1982, since time local business groups have been prohibited from borrowing from banks they control. Since the late 1980s the AFPs have been permitted to invest a growing proportion of private pension fund assets in the local equity market (and subsequently internationally). As a result, the AFPs have become active proponents of *corporate governance*, nominating independent directors, as well as promoting other restrictions on companies seeking pension fund investments (Lefort, 2010).

In consequence, the vast majority of listed companies have controlling block-holders. Thus, the classic agent-principal *vertical conflict* typically found in the USA and UK is uncommon and corporate governance issues centre around majority-minority stockholders, known as *horizontal conflicts* (Lefort, 2010).

2. Events in the Period Analysed

I now summarise the socio-political-economic events of the last 45 years, which present the sharp institutional variation alluded to in **Chapter 1**.

Stage I – Era of Militarily-Enforced Economic Rationality (1973-1989)

During the Pinochet-led military regime radical free economic policies were imposed and sustained without counterbalance for 17 years by the so-called ‘Chicago Boys’, a group of young Chilean economists trained predominantly in Chicago University, but also in other US centres, such as Harvard, MIT and UCLA.

At the corporate level, the markets experienced the strengthening, diversification and growing dominance of most economic sectors by elite business groups (Peres & Garrido, 1998). At a perceptual level, industrialists were seen to control the markets – that turned onto uncertainty at

the end of the period, given the expected change in the political scenario brought by the incoming democracy in 1989 (Libertad y Desarrollo, 1999).

Stage II – Era of Elite Alignment (1990-2012)

With the return of democracy, the predominance of the economic logic was consciously maintained for the next 23 years by the incoming five administrations that adopted and reinforced the inherited economic system as the motor of Chilean development (Ossandón & Tironi, 2013; Atria, Larraín, Benavente, Couso & Joignant, 2013). So, the previously established inter-institutional arrangements continued to operate with increased momentum and increasingly powerful defenders. This coalition between political and business groups can be related to Scott (1987, p. 23)'s *natural system*, defined as: “collectivities whose participants share a common interest in the survival of the system and who engage in collective activities, informally structures, to secure this end”.

Indeed, the tacit alignment between social democrat, centre-left, political leaders and right-wing business elites that occurred from the first years of democracy, devolved into explicit engagements to maintain a highly convenient system operating in a seamless manner. “There was license to win” [LAW-1]. And during this period the seeds of many future scandals, illegal or unethical collusions, featuring politicians, managers and industrialists were sown [REF-2]. According to one of the participants, some privileged groups felt they could choose which laws applied to them and which did not [PEN-1].

This selective, exclusivist and highly fitting system showed its first cracks in 2006, and another, deeper one, in 2011: massive protests, first by secondary school students and next by university students, strongly supported by the public opinion, erupted on to the streets, originating an era of ferment and eroding the established paradigm (Kuhn, 2012). An alternative, critical logic was forced by the Chilean youth, all of them born in democracy, which took an unfamiliar, confrontational posture towards the government and business elites, demanding an overhaul to education and other public and social national policies (Barrionuevo, 2011). Students diverged from previous generations' traditional submission to authority and they acted as activists, creating social disruption and thus playing the role of institutional entrepreneurs described in Battilana et al. (2009). They were able to generate crises that evidenced major social inconsistencies and frictions (Hardy & Maguire, 2008).

These events began unlocking the prevailing institutional inertia (Hoffman, 1999), opening a critical debate about existing practices and raising awareness of possible alternatives. These destabilizing incidents (McAdam & Scott, 2005) were compounded by the first household-related corporate scandals, affecting middle-low social classes and other vulnerable people (see **Appendix 1**) The basic social process (Glaser, 1978) during this stage could be conceptualised as *accommodating*. However, the growing social unease – and economic perplexity - with the perceived unfair distribution of wealth and unequal opportunities gave way to the return of the charismatic President Bachelet in 2013, with an influential slogan against inequality, a more radical new coalition of left wing political parties and a dominance in Congress.

Stage III – Era of Open Misalignments (2013-2016)

The basic social process during this stage could be characterised as *institutional entrepreneurship*. Indeed, many actors showed some level of enterprising at the institutional level:

- First, the government, with a re-foundational agenda, uncompromisingly committed to eliminate social privileges and to level the playing field – even perhaps to the price of disturbing the growth path of the country and the civic alliance weaved since the return of democracy (*Bachelet, 2013*).
- Second, a new breed of entrepreneurs, unhappy with “the Chicago boys turned into incumbents” [ENT-1] that brought from successive pilgrimages to Stanford (García, 2010) a new confidence, a sense of higher calling, as builder of a fairer marketplace and a sense-making of the unique window of opportunity for entrepreneurship, provided by the digitalisation process of the world.
- Third, regulatory agencies, including; a consumer protection overseer; an anti-trust agency; a banking regulator; the national securities commission; and a group of public prosecutors; taking several high-profile initiatives and sanctioning well-known business actors – hitherto seen as virtually untouchable. These actors have taken leading roles, arguably inspired by a series of events, including the social turmoil against corporate abuses, a newly found autonomy and increased confidence (Parrado, 2016) and, arguably actively instigated by the government against its opposition, the new standards promoted when Chile joined the OECD (in November

2010), their own professional ambitions and perhaps a new sense of mission inspired by social movements and social networks.

Other *institutional entrepreneurs* have been the thousands of citizens protesting about the low retirement pensions and actively manifesting against the AFPs managing the private pension funds under the individual capitalization system. These protests mobilised the government to promote a national consensus to introduce an additional element of solidarity, beyond the basic subsidy pension currently provided by the State.

Ironically, the least entrepreneurial at this juncture have been the traditional business groups as they have played ‘wait and see’ regarding the government’s new policy and reform proposal – making some political observers wonder if this *modus no operandi* was a way of showing their discontent with the lack of mutual understanding with the new government (Tironi, 1999 cited by Undurraga, 2011). Consistent with this, the former government diagnosed that incumbents would hardly be the motor moving the country forward (Minister of Economy Juan Andrés Fontaine, field interview), given their comfortable status and the massive wealth accumulated in the previous thirty prosperous years; thus, during its tenure promoted new entrepreneurs as role models.

Thus, this stage reflects Scott (1987, p. 23)’s *open system* definition: “coalitions of shifting interest groups that develop goals by negotiation; the structure of the coalition, its activities, and its outcomes are strongly influenced by environmental factors”. Indeed, the last two governments of completely opposite political orientations (centre-right and left, sequentially), tended to coincide in their diagnosis – although not at all in their policies - suggesting that the Chilean establishment required an upheaval. The former visioning new entrepreneurs as the drivers of a second wave of growth; the latter setting in motion the wheels of a more egalitarian society, designed to include traditionally excluded groups, and even attempting to break free from the traditionally untouchable budgetary limitations and construct their vision. An influential observer describes such attempt as “pushing beyond the frontier of plausibility” - beyond the economic balance, devotedly respected by the six previous administrations, that governed Chile the last forty years (Peña, 2016).

Therefore, the previous informal private-public alignment of interests associated with a *natural system*, as described by Scott (1987) gave way to shifting goals and incorporated new actors, for the first time including in the debate peripheral groups - previously far from the preoccupations of dominant coalitions. Indeed, the most vocal and successful (Garretón, 2015) opponent of

government reforms has been the newly formed association of entrepreneurs of Chile (ASECH), working in close coordination with the traditional business community, clustered around the classical large business association (SOFOFA) [GUI-3].

This period has been compounded by a stampede of new corporate and political scandals (see scandals in this period in **Appendix 1**).

APPENDIX 7 – FROM OPEN CODES TO THE EMERGING FRAMEWORK

In this section I trace the link between the open codes and the ideas driving into Framework 7. I do so by connecting each one of the main open codes to higher-order substantive codes. I use the 6Cs as the ordering system for the substantive codes and I distinguish between the three historical phases studied in this research. I also present the literature with which these findings were compared and enriched to derive the theoretical concepts presented in Figure 7, under the tenet of literature as data.

Links between (re-ordered) Open Codes and Substantive Codes used in the *Minding the Governing Gaps* Framework:

Table 7.1

	Code #	OPEN CODES	SUBSTANTIVE CODES	6C CATEGORY	LITERATURE AS DATA
P H A S E 1	A	1 Closed economy	A. Protected Play-field	CONTEXT	<i>Rational System</i> (Scott, 2007)
		2 Patriarchal society			
		3 Traditional families			
		4 State control of the economy			
		5 No competitive firms			
	B	6 Class privileges	B. Country Club	CONDITION	<i>Economic Anthropology</i> (Bourdieu, 2005)
		7 Conflicts of interest			
		8 Taken for granted conditions			
		9 Lack of professionalism			
		10 Subsidiary Role of the State			
	C	11 Milton Friedman influence	C. Chicago Boys agency	CAUSES	<i>New Institutional Economics</i> (North & colleagues)
		12 Chicago boys			
		13 Agency - individualism			
		14 Free competition			
		15 Open markets			
	D	16 Lack of regulation	D. Pro-Business Regulation	COVARIANCE	Zingales (2009; 2012)
		17 Lack of enforcement			
		18 Minimal Penalties			
		19 Laissez Faire			
		20 Adolescent (institutions) country			
	E	21 Nascent capital market	E. Exploitation of underdogs	CONTINGENCIES	New Institutional Economics (North & colleagues)
		22 Financial Crisis 1981-82			
		23 Privatizations			
		24 Felt validated by their success			
		25 No social sanctioning			
	F	26 No ethical formation	F. Economic progress	CONSEQUENCES	New Institutional Economics (North & colleagues)
		27 Economic growth			
		28 Social progress			
		29 Increased inequality			
		30 Cultural (individualism) change			
		31 Progressive Modernization			

The open codes linked to the second phase of the study are the following:

Table 7.2

	Code #		OPEN CODES	SUBSTANTIVE CODES	CONCEPTS	LITERATURE AS DATA
P H A S E 2	G	32	Globalisation process	Political-Business Alignment	CONTEXT	<i>Natural System</i> (Scott, 2007)
		33	License to win			
		34	Amoral logic			
		35	Everything is negotiable			
		36	Increasing role of State			
	H	37	Icarus syndrome	Country Club	CONDITION	<i>Resource-Dependence Theory</i> (Pfeffer & Salancik, 2003; 1978)
		38	Disconnection from society			
		39	Chicago Boys as incumbents			
		40	Milton Friedman's simplified logic			
		41	Lack of contact with reality			
	I	42	Spanish SOEs penetration of LA	Spain's SOEs agency	CAUSES	Corporate networks in Spain (Baena, 2002; Rubio & Garrúes, 2015; Bucheli & Salvaj, 2014)
		43	Spain's government role			
		44	Role of Spaniards			
		45	Spain's Political Transition Model			
		46	Spanish culture			
	J	47	Regulatory change	OECD-required regulatory changes	COVARIANCE	Varieties of institutional systems (Fainshmidt, Judge, Aguilera & Smith, 2016)
		48	Progressive actualization			
		49	Increase in control & monitoring			
		50	Not leaving the market alone			
		51	Appropriates Penalties			
		52	Permanent legal update			
	K	53	Crony Capitalism	Crony Capitalism	CONTINGENCIES	<i>Resource-Dependence Theory</i> (Pfeffer & Salancik, 2003; 1978)
		54	Corruption			
		55	Bribery			
		56	Bending the rules			
		57	Feeling above the law			
	L	58	Bad functioning of institutions	Economic progress & Social malaise	CONSEQUENCES	Crises of Corporate Governance (Lorsch & colleagues)
		59	Failure of boards			
		60	Market failure			
		61	Perception of injustice			
		62	Increasing social malaise			

Below I present the links between the open codes and the substantive codes associated to the third phase of the research.

Table 7.3

P H A S E 3	Code #		OPEN CODES	SUBSTANTIVE CODES	CONCEPTS	LITERATURE AS DATA
	M	63	Business lack of adaptation	Empowered, distrusting society	CONTEXT	<i>Open System</i> (Scott, 2007)
		64	Public distrust			
		65	Demand for accountability			
		66	Social demand for transparency			
		67	Legitimacy questioned			
	N	68	Tarnished identities	Elites searching for clues	CONDITION	<i>Corporate Deviance</i> (Aguilera, Judge & Terjesen, 2018)
		69	Peers fallen			
		70	Searching for answers			
		71	Taking stock of responsibility			
		72	Taking distance			
	O	73	Empowered social actors	Social Actors agency	CAUSES	<i>Intititutional Entrepreneurship</i> (Pacheco et al., 2010)
		74	Students' ethical complaints			
		75	Entrepreneurs' Association			
		76	Social interactions			
		77	Collaboration initiatives			
	P	78	Agenda of State agencies	Pro-Citizen Regulation	COVARIANCE	Institutional Theory / Behavioural Theory of Corporate Governance (Westphal & Zajac, 2013)
		79	More strict laws			
		80	Stronger enforcement			
		81	Harsher penalties			
		82	Institutions working			
		83	Active business associations			
	Q	84	Media overflow	Increased exposure	CONTINGENCIES	<i>Institutional Logics</i> (Friedland & Alford, 1991)
		85	Social networks amplifying events			
		86	Loss of reputation			
		87	Debating role of the State			
		88	Deal-making in the margins			
	R	89	Questioning of elites	Major governing complexity	CONSEQUENCES	<i>Institutional Logics</i> (Friedland & Alford, 1991)
		90	Economic cost of scandals			
		91	Introspection & reflexion			
		92	Increased complexity			
		93	Cultural change			

The following conceptual summary was obtained combining and synthesizing the three phases around the 6Cs sociological family:

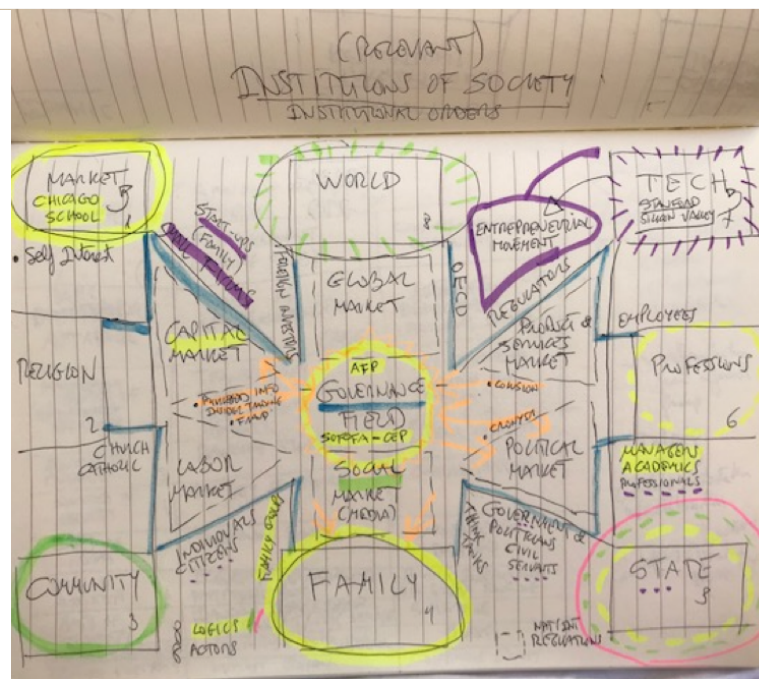
Table 7.4

6Cs	PHASE I Conceptualised	PHASE II Conceptualised	PHASE III Conceptualised
CONTEXT	Economic Institutional Governance Logic	Political Institutional Governance Logic	Social Institutional Governance Logic
CONDITION	Traditional industrialists & Family Businesses	Business Groups, Chicago Boys	Business Groups, Chicago Boys, Political Actors
CAUSES	Institutional entrepreneurship by Chicago Boys	Institutional entrepreneurship by Spanish SOEs & Political Actors	Institutional entrepreneurship by Social Actors
COVARIANCE	Pro-Business Regulation - derived from M.Friedman theories	Pro-Market Regulation - derived from OECD & Globalisation	Activist Regulation - derived from new laws & social sensibilities
CONTINGENCIES	Collusions, Frauds, Stakeholders' Abuses, Environmental damages	Crony Capitalism, Corruption, Bribery	Increase exposure to Stakeholders demands, complains & abuses
CONSEQUENCES	Governing Gap: Surviving, achieving efficiency, growing, maximising value for shareholders	Governing Gap: Coopting, controlling, aligning the powers-that-be influencing business	Legitimacy vis à vis an open, transparent, distrusting & interconnected society

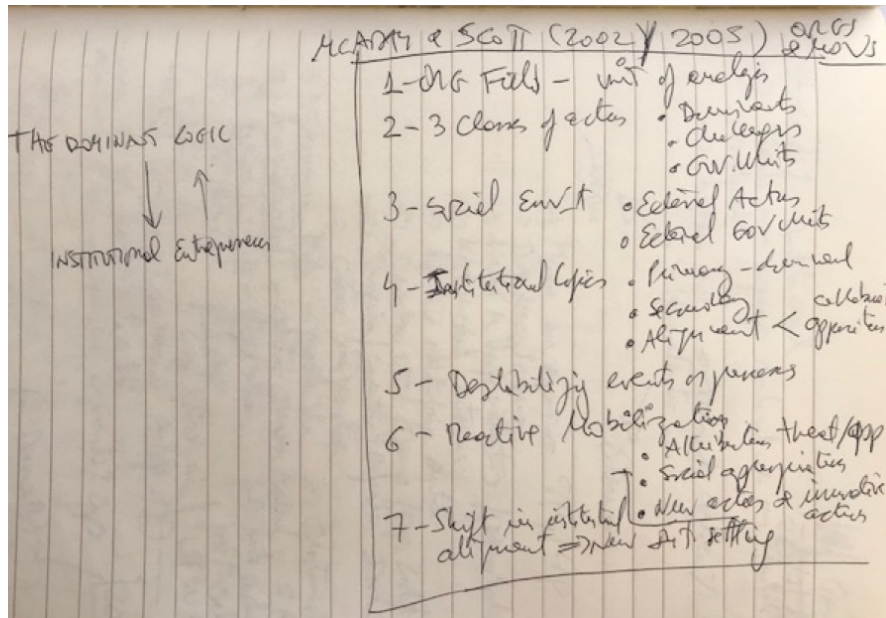
Role of the Literature in the Meaning-Making process

The literature helped to refine, contrast, enrich and complete the substantive codes proposed. The following are some pictures of the interactive reflection process followed, which iterated between the data and the literature.

Modelling the Macro-Institutional Setting based in Institutional Theory



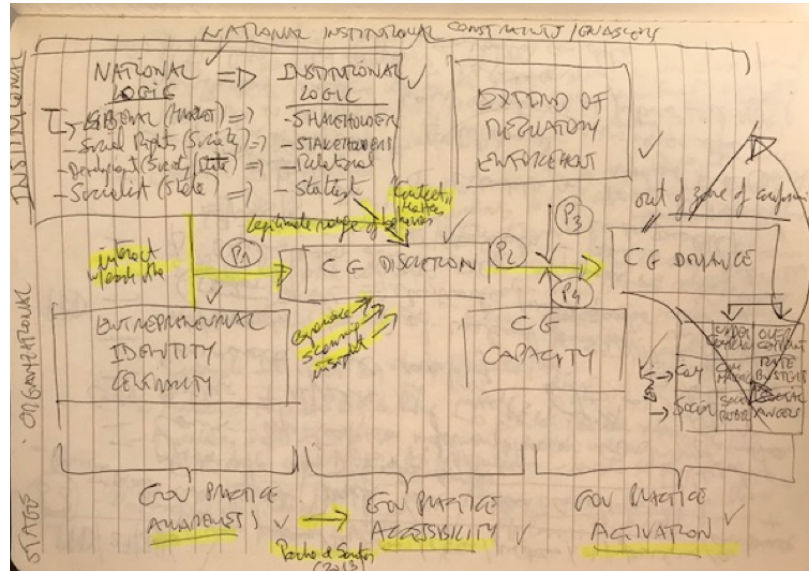
Comparison of Findings with Organizations & Movements McAdam & Scott (2002, 2005)



The articles by Aguilera and her colleagues were particularly useful to both position the Chilean Institutional System in a global context and to explore in more detail the notion of *corporate deviance* -an action pattern consistent with the conceptualization of the findings. It also emphasized the relevance of regulatory enforcement as a key driver of corporate conformance.

The process allowed to conceptualize in more detail the three institutional logics present in the period under study, as summarized in the following comparative table. The summary was also informed by and based on Thornton, Ocasio & Lounsbury (2012) and in Reay & Jones (2016) suggestions to capture qualitatively institutional logics through “pattern inducing” techniques. This is based on the interpretivist approach, which assumes that “meaning is tightly intertwined with context” and that the only possibility for effectively “capturing a social or cultural phenomenon is to look at it from the “inside” (p.449).

Comparison of Findings with notions of *Corporate Deviance* (Aguilera, Judge & Terjesen, 2018) and *Varieties of Institutional Systems* Fainshmidt, Judge, Aguilera & Smith, 2016)



COMPARATIVE INSTITUTIONAL LOGICS

INSTITUTIONAL LOGIC	ECONOMIC	POLITICAL	SOCIAL
METAPHOR	MARKET IS WISE & EFFICIENT	NEGOTIATE TO MOVE FORWARD	PROTEST TO VISIBILISE
SOURCE OF LEGITIMACY	WRITTEN LAWS & REGULATIONS	AGREEMENTS & CUSTOMS	STAKEHOLDER PARTICIPATION
SOURCE OF AUTHORITY	MILITARY AUTHORITIES	DEMOCRATIC AUTHORITIES	STAKEHOLDER ACCEPTANCE
SOURCE OF IDENTITY	IDENTITY BASED IN SOCIAL EXTRACTION / ORIGIN	IDENTITY INFORMED BY NETWORKS OF INTEREST GROUPS	IDENTITY INFORMED BY SCOPE OF SOCIAL INTERACTIONS
BASIS OF NORMS	SELF-INTEREST	NEGOTIATION	FAIR PLAY
BASIS OF ATTENTION	MARKET POSITION	POSITION VIS A VIS POLITICAL ACTORS	POSITION VIS A VIS STAKEHOLDERS
BASIS OF STRATEGY	PROFIT & GROWTH PERSPECTIVES	POLITICAL VIABILITY & SUPPORT	SOCIAL LEGITIMACY
INFORMAL CONTROL MECHANISMS	RIGHT-WING PRESS & GOVERNMENT DICTUMS	GOVERN'T CALLS, CONGRESS PRESS & BUS. ASSOCIATIONS	FREE PRESS & SOCIAL MEDIA
GOVERNING STRATEGY	ALIGNED WITH LIBERAL MARKET CAPITALISM	ALIGNED WITH DEVELOPMENT CAPITALISM	ALIGNED WITH SOCIAL RIGHTS CAPITALISM

Finally, some propositions were the key complements required to complete the conceptualization presented in Figure 7. Chief among them were Haunschild & Chandler (2008)'s contributions about institutional-level learning as a source of institutional change, which allowed to recognize more formally the role of learning. Pertti and Qadir (2014) informed the concept of an epistemic community, generating a notion of an epistemic governance guiding the meaning-making of main actors in the governance arena. Westphal and Zajac (2013) and their colleagues writing about a behavioural theory of governance gave the scholarly background to propose a social construction of the action of *governing* as *minding the corporate governing gap*.

APPENDIX 8 – 3Xi INITIATIVE

Press Release of the Meeting of the Chairs of CPC and ASECH, entrepreneurs, innovators and NGOs conforming the 3xi initiative with the newly-elected president of Chile, Sebastián Piñera

19 de enero de 2018

Informarle al presidente electo en qué consiste y qué hace 3xi, junto con ponerse a su disposición para colaborar en proyectos sociales, y el fomento del encuentro y el diálogo entre los chilenos. Ese fue el objetivo de la reunión que sostuvo Sebastián Piñera esta mañana con Alfredo Moreno, presidente de la CPC; Alejandra Mustakis, presidenta de ASECH; Juan Pablo Larenas, fundador de Sistema B; Alfonso Gómez, presidente ejecutivo del Centro de Innovación UC; Alejandra Pizarro, directora ejecutiva de la Comunidad de Organizaciones Solidarias; Claudia Marfin, de Virtus Partners; y Jaime Riesco, gerente de 3xi.

A la salida del encuentro, Alfredo Moreno destacó que fue una conversación muy productiva, en la que le dieron a conocer al presidente electo los proyectos en que 3xi está trabajando junto al sector público, en materia de salud, educación, parques, discapacidad, etc. “El presidente estaba muy al tanto de todos estos temas y, al igual como lo hicimos con la presidenta Bachelet, nos pusimos a su disposición como 3xi para seguir colaborando en el futuro en iniciativas sociales que solucionen problemas que afectan a los chilenos”, señaló el presidente de la CPC.

Qué es 3xi

3xi es una iniciativa conjunta de la Confederación de la Producción y del Comercio (CPC), la Asociación de Emprendedores de Chile (ASECH), Sistema B, la Comunidad de Organizaciones Solidarias y el Centro de Innovación UC. En la organización también participa Virtus Partners como socio de este importante esfuerzo, tanto en el diseño como en la articulación de las reuniones.

Bajo el lema “Hacia una cultura del encuentro”, ha ido reuniendo a diversos grupos de personas de acción, convocadas en torno al ideal de aportar ideas y enriquecer la discusión que permita abordar los desafíos de un desarrollo integral y sustentable, como tarea de todos.

Durante 2017, se realizaron 5 encuentros en el marco de la iniciativa 3xi. En ellos han participado en total más de 400 personas entre empresarios, emprendedores, representantes de organizaciones de la sociedad civil y de empresas B, dirigentes gremiales, representantes de pueblos originarios, ejecutivos de empresas y líderes en innovación. El objetivo: conocerse unos a otros y fortalecer los lazos de confianza, con el fin de crear un Chile mejor. Para seguir dándole forma a este propósito, durante 2018 se realizarán otros 5 encuentros 3xi,

Fruto de los encuentros y bajo el espíritu 3xi, durante los últimos meses se han venido desarrollando diversas iniciativas, todas con el foco puesto en la colaboración conjunta para lograr mejoras en la calidad de vida de las personas. Destacan, por ejemplo, la operación gratuita por parte de clínicas privadas a personas que padecen catarata severa; la elaboración del material y seminario para preparar a las empresas en la inclusión de personas con discapacidad al mundo laboral; la constitución de una red de centros e iniciativas de innovación de Chile (RICH); el proyecto Mapocho Limpio, para transformar la ribera sur poniente del río, en un espacio público limpio y de calidad; Juntos por la Infancia, que busca mejorar integralmente las condiciones de vida de los niños más vulnerables de nuestro país; entre otros.

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